

CORRECTIONS CORP OF AMERICA

Form 424B5

May 05, 2003

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Filed Pursuant to Rule 424(b)(5)  
Commission File No. 333-104240

PROSPECTUS SUPPLEMENT  
(To Prospectus dated April 30, 2003)

**\$250,000,000**

**7 1/2% Senior Notes**

**due 2011**

This is an offering by Corrections Corporation of America of \$250,000,000 aggregate principal amount of its 7 1/2% Senior Notes due 2011 (the Notes ). Interest is payable on May 1 and November 1 of each year, beginning on November 1, 2003. The Notes will mature on May 1, 2011.

We may redeem all or part of the Notes on or after May 1, 2007. Before May 1, 2006, we may redeem up to 35% of the Notes with the proceeds of certain equity offerings. Redemption prices are specified in this prospectus supplement under Description of Notes Optional Redemption.

The Notes will be our unsecured senior obligations, will rank equally in right of payment with all of our and all of our subsidiary guarantors existing and future unsecured senior debt and will rank senior in right of payment to all of our and all of our subsidiary guarantors future subordinated debt. The Notes will be subordinated to our and our subsidiary guarantors senior secured debt to the extent of the value of assets securing such indebtedness. The Notes will be guaranteed on an unsecured senior basis by all of our domestic subsidiaries.

*Investing in the Notes involves risks. See Risk Factors beginning on page S-13 of this prospectus supplement and page 2 of the accompanying prospectus.*

	<u>Per Note</u>	<u>Total</u>
Public Offering Price	100.00%	\$ 250,000,000
Underwriting Discount	2.25%	\$ 5,625,000
Proceeds to Corrections Corporation of America	97.75%	\$ 244,375,000

Interest on the Notes will accrue from May 7, 2003 to the date of delivery.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus supplement or the accompanying prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

Lehman Brothers, on behalf of the underwriters, expects to deliver the Notes on or about May 7, 2003, subject to conditions.

**LEHMAN BROTHERS**

DEUTSCHE BANK SECURITIES

UBS WARBURG

SG COWEN

BB&T CAPITAL MARKETS  
JEFFERIES & COMPANY, INC.

FIRST ANALYSIS SECURITIES CORPORATION  
MORGAN JOSEPH & CO. INC.

SOUTHTRUST SECURITIES, INC.

May 2, 2003



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The following graphic and image material is omitted from the form of prospectus supplement filed electronically:

Inside Front Cover:

[From the top of the page to the bottom of the page are the following: the heading Corrections Corporation of America, a map of the United States and a legend showing CCA's owned and managed facilities, owned and leased/sub-leased facilities and managed only facilities.]

The following graphic and image material is omitted from the form of prospectus supplement filed electronically:

Inside Back Cover:

[From the top of the page to the bottom of the page are the following: two pictures of CCA employees interacting with inmates, a picture of the outside of a CCA facility, a picture of the inside of a CCA facility and a picture of a CCA employee and an inmate in a prison medical facility.]

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This document is in two parts. The first part is this prospectus supplement, which describes the terms of this offering of the Notes. The second part is the accompanying prospectus, which gives more general information, some of which may not apply to the Notes.

You should rely only on the information contained or incorporated by reference in this prospectus supplement and the accompanying prospectus. We have not authorized anyone to provide you with different information. We are not making an offer to sell these securities in any state where the offer or sale is not permitted. You should assume that the information contained in this prospectus supplement, the accompanying prospectus and the documents incorporated by reference is accurate only as of their respective dates. Our business, financial

condition and results of operations and prospects may have changed since those dates.

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**SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS**

This prospectus supplement, the accompanying prospectus, and the documents incorporated or deemed to be incorporated in the accompanying prospectus contain forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act). Forward-looking statements address our beliefs and expectations of the outcome of future events that are forward-looking in nature, including, without limitation, the statements under Prospectus Supplement Summary, Risk Factors, Management's Discussion and Analysis of Financial Condition and Results of Operations, and Business. All statements other than statements of current or historical fact contained in this prospectus supplement, the accompanying prospectus, and the documents incorporated or deemed to be incorporated in the accompanying prospectus are forward-looking statements. The words believe, anticipate, plan, expect, intend, estimate and similar expressions, as they relate to us, are intended to identify these forward-looking statements. These forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from the statements made. These include, but are not limited to, the risks and uncertainties associated with:

the growth in the privatization of the corrections and detention industry and the public acceptance of our services;

our ability to obtain and maintain correctional facility management contracts, including as the result of sufficient governmental appropriations, and the timing of the opening of new facilities;

changes in governmental policy, legislation and regulation of the corrections and detention industry that adversely affect our business;

availability of debt and equity financing, on terms that are favorable to us;

fluctuations in operating results because of changes in occupancy levels, competition, increases in costs of operations, fluctuations in interest and risks of operations;

tax related risks; and

general economic and market conditions.

All forward-looking statements included in this prospectus supplement, the accompanying prospectus, and the documents incorporated or deemed to be incorporated in the accompanying prospectus are based on information available to us on the date of this prospectus supplement. Except as required by law, we undertake no obligation to update or revise any forward-looking statement, 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 contained throughout this prospectus supplement.

In this prospectus supplement, we, us, our and the Company refer to Corrections Corporation of America and its consolidated subsidiaries, unless otherwise expressly stated or the context otherwise requires. The symbol \$ refers to U.S. dollars, unless otherwise indicated.



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**PROSPECTUS SUPPLEMENT SUMMARY**

*The following summary highlights certain significant aspects of our business and this offering, but you should carefully read this entire prospectus supplement and the accompanying prospectus, including the financial data and related Notes and the documents incorporated by reference, which are described under Incorporation of Certain Documents by Reference, before making an investment decision. Because this is a summary, it may not contain all the information that is important to you. Our actual results could differ materially from those anticipated in certain forward-looking statements contained in this prospectus supplement as a result of certain factors, including those set forth under Risk Factors.*

**Our Company**

We are the nation's largest owner and operator of private correctional and detention facilities and one of the largest prison operators in the United States behind only the federal government and four states. We provide the fundamental residential and health care services for our adult and juvenile inmates, as well as a variety of rehabilitation and educational programs designed to reduce recidivism and prepare our inmates for their successful reentry into society upon their release. Some of the additional services we offer include life skills training, basic education, employment training, religious services, behavioral rehabilitation and treatment, substance abuse treatment and work and recreational programs.

We provide our essential services through 59 facilities, including 38 facilities that we own, with a total design capacity of approximately 59,000 beds in 20 states and the District of Columbia. We also provide inmate transportation services for government agencies through our subsidiary, TransCor America, LLC. For the year ended December 31, 2002, we had revenues of \$962.8 million and operating income of \$130.0 million.

Our services address a total U.S. market that we believe exceeds \$50 billion, of which only approximately 6.1% is currently outsourced to the private sector. We believe that the U.S. market will demonstrate consistent growth over the next decade as a result of stricter sentencing guidelines, longer prison sentences and prison terms for juvenile offenders, as well as the growing demographic of the 14 to 24 year-old at-risk population. We also expect the size of the private market to grow as a result of governments' demonstrated need to augment their overcrowded and aging facilities, reduce costs, increase accountability and improve overall quality of service.

Under our management services contracts, government agencies pay us at an inmate per diem rate based upon actual or minimum guaranteed occupancy levels. Our management services contracts typically have terms of one to five years, and contain multiple renewal options exercisable at the option of the contracting government agency. More than 40 of our approximately 80 contracts are with government entities for which we have been providing services for five years or more. Our management services contracts provide a reliable source of revenue, reflected by the renewal of more than 95% of our contracts over the past four years.

We have increased our average compensated occupancy, based on rated capacity, for facilities in operation to 89.6% for the year ended December 31, 2002 from 88.4% for the year ended December 31, 2001. Our average compensated occupancy for facilities in operation for the quarter ended December 31, 2002 was 91.2%.

**Competitive Strengths**

We believe that we benefit from the following competitive strengths:

***The Largest and Most Recognized Private Prison Operator.*** Our recognition as the industry's leading private prison operator provides us with significant credibility with our current and prospective clients. We manage approximately 50% of all privately managed prison beds in the United States. We pioneered modern-day private prisons with a list of notable accomplishments, such as being the first company to design, build and operate a private prison and the first company to manage a private maximum-security

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facility under a direct contract with the federal government. We believe that we benefit from certain economies of scale in purchasing power for food services, healthcare services and other supplies.

**Available Beds Within Our Existing Facilities.** Our available beds provide us with an opportunity for increasing operating cash flows without significant capital outlays. We currently have two facilities, our Northeast Ohio Correctional Center and Tallahatchie County Correctional Facility, that are substantially vacant and provide us with approximately 3,000 available beds. We also have a facility with approximately 1,500 beds located in Stewart County, Georgia, which is partially complete. In addition to the above facilities, as of March 1, 2003, we have a total of nine facilities that each have 200 or more beds available.

**Diverse, High Quality Customer Base.** We provide services under management contracts with a diverse client base of approximately 50 different customers that generally have credit ratings of single-A or better. In addition, with average inmate lengths of stay of between three and five years and a majority of our contracts having terms between one and five years, our revenue base is relatively predictable and stable.

**Proven Senior Management Team.** Our senior management team has applied their prior experience and diverse industry expertise to significantly improve our operations. Under our senior management team's leadership, our average occupancy has increased from 84.8% in 2000 to 89.6% in 2002 while our average inmate per diem operating margin increased from \$8.29 to \$11.30 during the same period. Since the fourth quarter of 2000, we have secured the three largest contracts in our history, accounting for approximately 4,800 beds under contract with the Federal Bureau of Prisons. In addition, in 2001 we reduced our debt by \$189.0 million and we refinanced our senior debt in 2002 on more favorable terms, resulting in significant interest savings.

## **Business Strategy**

Our primary business strategy is to provide quality corrections services, offer a compelling value, increase occupancy and revenue, and further rationalize our capital structure, while maintaining our position as the leading owner, operator and manager of privatized correctional and detention facilities. We will also consider opportunities for growth, including potential acquisitions of businesses within our line of business and those that provide complementary services, provided we believe such opportunities will broaden our market and/or increase the services we can provide to our customers.

**Own and Operate High Quality Correctional and Detention Facilities.** We believe that our clients choose an outsourced correctional services provider based primarily upon the quality of the service provided. Approximately 80% of our facilities are accredited by the American Correctional Association, or the ACA, an independent organization of corrections industry professionals that establishes standards by which a correctional facility may gain accreditation. We believe that this percentage compares favorably to the percentage of government-operated adult prisons that are accredited by the ACA. The quality of our operations is further illustrated by the fact that for the three years ended December 31, 2001, we had an escape ratio at our adult prison facilities that was less than two-thirds of the national average for adult prisons (according to the 2001 Corrections Yearbook published by the Criminal Justice Institute). We have experienced wardens managing our facilities, with an average of over 23 years of corrections experience and an average tenure of almost eight years with us.

**Offer Compelling Value.** We believe that our customers also seek a compelling value and service offering when selecting an outsourced correctional services provider. We believe that we offer a cost-effective alternative to our clients by reducing their correctional services costs. We attempt to accomplish this through improving operating performance and efficiency through the following key operating initiatives: (1) standardizing supply and service purchasing practices and usage; (2) outsourcing the purchase of food products and services nationwide; (3) improving inmate management, resource consumption and reporting procedures through the utilization of numerous technological initiatives; and (4) improving productivity and reducing employee turnover. We also intend to continue to implement a wide variety of specialized services that address the unique needs of various segments of the inmate population. Because the facilities we operate differ with respect to security levels, ages, genders and cultures of inmates, we focus on the

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particular needs of an inmate population and tailor our services based on local conditions and our ability to provide services on a cost-effective basis.

***Increase Occupancy.*** Our industry benefits from significant economies of scale, resulting in lower operating costs per inmate as occupancy rates increase. Our management team is pursuing a number of initiatives intended to increase occupancy through obtaining new and additional contracts. We are also focused on renewing and enhancing the terms of our existing contracts. Given our significant number of available beds, we believe we can increase operating cash flow from increased occupancy without incurring significant capital expenditures. In addition, we will consider the expansion of existing facilities or the development or purchase of new prison facilities that we believe have favorable investment returns and increase value to our stockholders.

***Improve Our Capital Structure.*** In 2001, we reduced debt by \$189.0 million, and in 2002 we were able to reduce our cost of capital by refinancing our senior secured credit facility. The transactions contemplated hereby are intended to continue this effort by significantly reducing the after tax dividend and interest obligations associated with our outstanding preferred stock and our 10% convertible subordinated notes, respectively. We also intend to use an additional \$25 million of cash on hand and the anticipated proceeds of a tax refund estimated to be approximately \$32 million to further reduce outstanding borrowings under the term loan portion of our senior secured credit facility. We believe that based on our anticipated level of capital expenditures and the benefit of our net operating loss carry forwards we will generate free cash flow that will enable us to continue reducing our debt.

## **The Corrections and Detention Industry**

We believe we are well-positioned to capitalize on governmental outsourcing of correctional management services because of our competitive strengths and business strategy. The key reasons for this outsourcing trend include:

***Growing United States Prison Population.*** The average annual growth rate of the prison population in the United States between December 1995 and June 2002 was 3.8%. The growth rate declined somewhat to 2.8% between June 2001 and June 2002, with the sentenced state prison population rising by only 1.0%. However, from June 2001 to June 2002, the sentenced prison population for the federal government rose 5.7%, which represented over 40% of the growth of the nation's prison population. In the first six months of 2002, the number of federal inmates increased 3.0%, which was more than twice the rate of state growth for the same period. Federal agencies are collectively our largest customer and accounted for approximately 33% of our management revenues (when aggregating all of our federal contracts) for the year ended December 31, 2002. Further growth is expected to come from stricter sentencing guidelines, longer prison sentences and prison terms for juvenile offenders, as well as the growing demographic of the 14 to 24 year-old at-risk population.

***Prison Overcrowding.*** The significant growth of the prison population in the United States has led to overcrowding in the state and federal prison systems. In 2001, at least 22 states and the federal prison system reported operating at above capacity. The federal prison system was operating at 31% above capacity at December 31, 2001.

***Acceptance of Privatization.*** The prisoner population housed in privately managed facilities in the United States at the end of June 2002 was 86,626. At June 30, 2002, 12.6% of all federal inmates and 5.2% of all state inmates were held in private facilities. Seven states and the District of Columbia, all of which are our customers, housed at least 20% of their prison population in private facilities as of June 30, 2002 - New Mexico (43%), the District of Columbia (27%), Montana (31%), Alaska (29%), Oklahoma (29%), Wyoming (28%), Hawaii (22%), and Idaho (22%).

***Governmental Budgeting Constraints.*** We believe the outsourcing of prison management services to private operators allows governments to manage increasing inmate populations while simultaneously controlling correctional costs and improving correctional services. The use of facilities owned and managed by private operators allows governments to expand prison capacity without incurring large capital

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commitments required to increase correctional capacity. In addition, contracting with a private operator allows governmental agencies to add beds without making significant capital investment or incurring new debt. We believe these advantages translate into significant cost savings for government agencies.

### **The Proposed Transactions**

We are undertaking a series of transactions as described below in order to enhance our capital structure and to provide us additional financing flexibility that will enable us to more effectively execute our business objectives in the future. We cannot assure you that these transactions will be successfully completed. See The Transactions.

**Note and Common Stock Offerings.** We are offering \$250.0 million aggregate principal amount of our Notes. Concurrently with the Notes offering, we are also offering 6,400,000 shares of common stock for sale and a selling stockholder of the Company is offering 1,200,000 shares of common stock for sale under a separate prospectus supplement. The Company will not receive any proceeds from the sale of shares from the selling stockholder.

**Tender Offer for Series B Preferred Stock.** We are making an offer to purchase up to 90% of our outstanding series B preferred stock (approximately 4.2 million of the 4.7 million shares outstanding as of March 31, 2003). The offer price for the series B preferred stock is \$26.00 per share.

**Redemption of Series A Preferred Stock.** Immediately following consummation of the common stock offering and the Notes offering, we intend to use approximately \$100.0 million of the net proceeds from the offerings to redeem approximately 4.0 million of the 4.3 million shares of our series A preferred stock issued and outstanding at a price per share equal to the liquidation preference plus accrued and unpaid dividends to the redemption date.

**Purchase of Shares of Common Stock Issuable Upon Conversion of the MDP Notes.** We have entered into an agreement with Income Opportunity Fund I, LLC, Millennium Holdings II LLC and Millennium Holdings III LLC (which we collectively refer to as MDP ) in which MDP has agreed to convert the \$40.0 million aggregate principal amount of our 10% convertible subordinated notes due 2008, or the MDP Notes, into 3,362,899 shares of our common stock and sell such shares to us. The aggregate purchase price for the shares and accrued interest payable on the notes will be approximately \$81.1 million.

**Payments on and Amendments to Senior Secured Credit Facility.** We intend to repay approximately \$77.2 million in borrowings outstanding under the term loan portion of our senior secured credit facility. Depending upon the results of our tender offer to purchase up to 90% of our outstanding series B preferred stock, the amount of senior debt we will pay down would be adjusted. In connection with the transactions contemplated hereby, the required lenders under our senior secured credit facility have consented to the proposed transactions and to amend the senior secured credit facility to provide us with additional financial flexibility.

Our obligation to consummate the common stock offering is not subject to the completion of any of the other transactions described above. The Notes offering is conditioned upon completion of the common stock offering. The tender offer is conditioned, upon among other things, completion of the common stock and Notes offerings. If the Notes offering and tender offer are not completed, we anticipate, subject to obtaining consent of the lenders under our senior secured credit facility, using the proceeds from the common stock offering to purchase the 3,362,899 MDP shares and pay accrued interest payable on the notes in connection with the purchase (subject to certain conditions therein), repay senior indebtedness and for general corporate purposes.

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The foregoing transactions are reflected in the following sources and uses table and as described below:

**Sources and Uses****(dollars in thousands)****Sources of Funds**

Notes	\$ 250,000
Common Stock Offering, Net Proceeds <sup>(1)</sup>	117,312
	<u>367,312</u>
	<b>\$ 367,312</b>

**Uses of Funds**

Tender for Series B Preferred Stock <sup>(2)</sup>	\$ 97,178
Redemption of Series A Preferred Stock	101,465
MDP Repurchase	81,070
Prepay Term Loans <sup>(3)</sup>	77,202
Fees and Expenses <sup>(4)</sup>	10,397
	<u>367,312</u>
	<b>\$ 367,312</b>

- 
- (1) Based upon a price to the public in the common stock offering of \$19.50 per share.
- (2) Assumes a successful tender for approximately 80% of the issued and outstanding series B preferred stock.
- (3) Subject to change to the extent we purchase more or fewer shares of series B preferred stock than as set forth above.
- (4) Includes approximately \$7.5 million of underwriting discounts and anticipated expenses of the Notes offering.

**Our History**

Our predecessor, Corrections Corporation of America, a Tennessee corporation, was founded in 1983 as the first owner and operator of privatized correction and detention facilities. From January 1, 1999 to October 1, 2000, we operated as Prison Realty Trust, a publicly traded real estate investment trust, or REIT. Prison Realty Trust was the owner of all of our owned facilities while all of our prison operations (i.e., the management of our owned prisons and the management of government-owned prisons) were conducted by three operating companies.

In order to provide a simplified and more stable corporate and financial structure that allows us to retain earnings for capital purposes and to reduce debt, we merged with the three operating companies during the fourth quarter of 2000. In connection with the consummation of these mergers, we resumed operations under the Corrections Corporation of America name and ceased operating as a REIT. See Notes 1 and 3 to the combined and consolidated financial statements set forth herein for a more detailed description of these events.

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**The Offering**

Issuer	Corrections Corporation of America
Securities	\$250,000,000 in aggregate principal amount of 7 1/2% Senior Notes due 2011.
Maturity	May 1, 2011.
Interest Rate	The Notes will bear interest at a rate per annum of 7 1/2% from May 7, 2003
Interest Payment Dates	May 1 and November 1 of each year, beginning on November 1, 2003.
Guarantees	Our obligations under the Notes will be fully and unconditionally guaranteed by our existing restricted domestic subsidiaries. For the year ended December 31, 2002, the entities that will guarantee the Notes generated 99.9% of our revenues.
Ranking	<p>The Notes and subsidiary guarantees are senior obligations of ours and our subsidiary guarantors. Accordingly, they will rank:</p> <p>equally with all of our and our subsidiary guarantors existing and future unsecured senior debt;</p> <p>ahead of any of our and our subsidiary guarantors future debt that expressly provides for subordination to the Notes or the guarantees; and</p> <p>subordinated to any of our and our subsidiary guarantors secured indebtedness to the extent of the value of the security for that indebtedness.</p>
Optional Redemption	At any time on or after May 1, 2007, we may redeem all or a part of the Notes at the redemption prices specified in this prospectus supplement under Description of the Notes Optional Redemption, plus accrued and unpaid interest and liquidated damages, if any, to the date of redemption. At any time before May 1, 2006, we may redeem up to 35% of the outstanding Notes with the net proceeds of certain equity offerings, as long as at least 65% of the aggregate principal amount of the Notes remains outstanding after the redemption.
Mandatory Offer to Repurchase	If we sell certain assets or experience specific kinds of changes in control, we must offer to repurchase the Notes at the prices, plus accrued and unpaid interest, if any, to the date of redemption, listed in Description of Notes Repurchase at the Option of Holders.
Certain Covenants	<p>We will issue the Notes under an indenture containing covenants for your benefit. These covenants restrict our ability and the ability of our subsidiaries, with exceptions, to, among other things:</p> <p>pay dividends or make other restricted payments;</p> <p>incur additional debt or issue preferred stock;</p> <p>create or permit to exist certain liens;</p>

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incur restrictions on the ability of certain of our subsidiaries to pay dividends or other payments;  
consolidate, merge or transfer all or substantially all our assets; and  
enter into transactions with affiliates.

These covenants are subject to a number of important exceptions and qualifications.

Use of Proceeds

We estimate that the net proceeds from this offering will be approximately \$242.5 million. We intend to use the net proceeds from this offering, together with the net proceeds from our concurrent offering of common stock, (a) to redeem \$100.0 million (liquidation price) plus accrued dividends of the issued and outstanding shares of series A preferred stock pursuant to their terms, (b) to consummate the tender offer to purchase up to approximately 4.2 million shares of our series B preferred stock, (c) to purchase the shares of common stock issuable upon conversion of the MDP Notes and pay interest to the noteholders, and (d) to repay approximately \$77.2 million of term indebtedness under our senior secured credit facility.

For a discussion of certain risks that should be considered in connection with an investment in the Notes, see Risk Factors.

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**SUMMARY HISTORICAL AND PRO FORMA FINANCIAL AND OPERATING DATA**

The following table sets forth certain of our historical and pro forma combined and consolidated financial data as of and for the periods indicated. Our summary historical financial data is derived from our audited combined and consolidated financial statements as of December 31, 2002 and 2001 and for the years ended December 31, 2002, 2001 and 2000, which are included elsewhere in this prospectus supplement and incorporated by reference in the accompanying prospectus. The summary pro forma financial data set forth below is derived from our Unaudited Pro Forma Condensed Consolidated Financial Statements included elsewhere in this prospectus supplement.

Our financial information for the years ended December 31, 2002 and 2001 is the only information presented below that fully reflects operating and financial results under our current corporate structure for full periods as an owner, operator and manager of prisons and other correctional facilities. As the result of our mergers in the fourth quarter of 2000, our financial information for the year ended December 31, 2000 set forth below reflects nine months of operations primarily as a lessor of prisons and other correctional facilities and three months of operations as an owner, operator and manager of prisons and other correctional facilities. Therefore, the summary financial information for the year ended December 31, 2000 is not comparable to the financial information for the years ended December 31, 2002 and 2001. The following data should be read in conjunction with Selected Historical Financial Data, Management's Discussion and Analysis of Financial Condition and Results of Operations and the historical combined and consolidated financial statements and the related notes included in this prospectus supplement or incorporated by reference in the accompanying prospectus, each of which contains more detailed information with respect to our operations prior to 2001 and mergers in 2000.

The pro forma adjustments are described in Unaudited Pro Forma Condensed Consolidated Financial Statements beginning on page S-27 and are based upon available information and various assumptions that management believes are reasonable. These adjustments give effect to events directly attributable to the transactions described in Unaudited Pro Forma Condensed Consolidated Financial Statements. The unaudited pro forma condensed consolidated statement of operations and other financial data do not purport to represent what our results of operations would actually have been had these transactions occurred on January 1, 2002, and the as adjusted condensed consolidated balance sheet data does not purport to represent what our financial position would have been had these transactions actually occurred on December 31, 2002.



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	Year Ended December 31,			
	2000	2001	2002	Pro Forma 2002 <sup>(1)</sup>
(dollars in thousands, except per share amounts)				
<b>Statements of Operations:</b>				
Revenue:				
Management and other	\$ 261,774	\$ 930,635	\$ 959,137	\$ 959,137
Rental	40,938	5,718	3,701	3,701
Licensing fees from affiliates	7,566			
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total revenue	310,278	936,353	962,838	962,838
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Expenses:				
Operating	217,315	721,468	744,074	744,074
General and administrative	45,463	34,568	36,907	36,907
Depreciation and amortization	59,799	53,279	51,878	51,878
Fees to Operating Company	1,401			
Write-off of amounts under lease arrangements	11,920			
Impairment losses	527,919			
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total expenses	863,817	809,315	832,859	832,859
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Operating income (loss)	(553,539)	127,038	129,979	129,979
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Other (Income) Expense:				
Equity loss and amortization of deferred gain, net	11,638	358	153	153
Interest expense, net	131,545	126,242	87,478	94,457
Other income	(3,099)			
Change in fair value of derivative instruments		(14,554)	(2,206)	(2,206)
Loss on disposals of assets	1,733	74	111	111
Unrealized foreign currency transaction (gain) loss	8,147	219	(622)	(622)
Stockholder litigation settlements	75,406			
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total other (income) expense	225,370	112,339	84,914	91,893
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Income (loss) from continuing operations before income taxes, minority interest, extraordinary charge and cumulative effect of accounting change	(778,909)	14,699	45,065(1)	38,086(1)
Income tax benefit	48,002	3,358	63,284	63,284
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Income (loss) from continuing operations before minority interest, extraordinary charge and cumulative effect of accounting change	(730,907)	18,057	108,349	\$ 101,370
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Minority interest in net loss of PMSI and JJFMSI	125			
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Income (loss) from continuing operations before extraordinary charge and cumulative effect of accounting change	(730,782)	18,057	108,349	
Income from discontinued operations, net of taxes		7,637	681	
Extraordinary charge			(36,670)	
Cumulative effect of accounting change			(80,276)	
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

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Net income (loss)	(730,782)	25,694	(7,916)	
Distributions to preferred stockholders	(13,526)	(20,024)	(20,959)	
	<u>          </u>	<u>          </u>	<u>          </u>	
Net income (loss) available to common stockholders	\$ (744,308)	\$ 5,670	\$ (28,875)	
	<u>          </u>	<u>          </u>	<u>          </u>	
<b>Other Financial Data:</b>				
EBITDA <sup>(2)</sup>	\$ (587,565) <sup>(3)</sup>	\$ 194,220	\$ 184,421	\$ 184,421
Capital expenditures	\$ (78,663)	\$ (6,435)	\$ (17,097)	\$ (17,097)
Ratio of earnings to fixed charges <sup>(4)</sup>	N/A	1.1x	1.5x	1.4x
<b>Supplementary Financial Data:</b>				
EBITDA to gross interest expense				1.9x
Total debt to EBITDA				5.9x

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	Year Ended December 31,		
	2000 <sup>(5)</sup>	2001	2002
<b>Facility Operating Data:</b>			
Average available beds	60,424	58,855	58,487
Average compensated occupancy	84.8%	88.4%	89.6%
Total compensated man-days	18,750,204	18,995,016	19,121,088
Revenue per compensated man-day <sup>(6)</sup>	\$ 45.94	\$ 48.11	\$ 49.32
Margin per compensated man-day <sup>(7)</sup>	\$ 8.29	\$ 11.01	\$ 11.30

	As of December 31, 2002	
	Actual	As Adjusted <sup>(8)</sup>
(dollars in thousands)		
<b>Balance Sheet Data</b>		
Cash and cash equivalents	\$ 65,406	\$ 65,406
Total assets	1,874,071	1,880,872
Total debt	955,959	1,088,757
Total liabilities	1,140,073	1,260,286
Stockholders' equity	733,998	620,586

- (1) The pro forma statement of operations, other financial data and supplementary financial data are presented to give effect to the transactions described in "The Transactions" and "Unaudited Pro Forma Condensed Consolidated Financial Statements" as if the transactions had occurred on January 1, 2002.

Primarily as the result of a change in tax law, the Company experienced a significant tax benefit in 2002 which may not recur in future years. Therefore, the Company believes it is useful to compare historical pretax income from continuing operations before extraordinary charge and cumulative effect of accounting change available to common stockholders with pro forma pretax income from continuing operations before extraordinary charge and cumulative effect of accounting change available to common stockholders in analyzing the effects of the transactions. The calculation of comparative pretax income from continuing operations, extraordinary charge and cumulative effect of accounting change available to common stockholders is as follows:

	Year Ended December 31, 2002	
	Actual	Pro Forma
Income from continuing operations before income taxes, extraordinary charge and cumulative effect of accounting change	\$ 45,065	\$ 38,086
Series A Preferred Stock Dividends	(8,600)	(600)
Series B Preferred Stock Dividends	(12,359)	(646)
Income from continuing operations before income taxes, extraordinary charge and cumulative effect of accounting change available to common stockholders	\$ 24,106	\$ 36,840

In addition, the transactions will provide another potential benefit because interest on the new senior notes is deductible for federal income tax purposes while preferred stock dividends are not.

- (2) We compute EBITDA by adding depreciation and amortization and interest expense, net, to income (loss) from continuing operations before income taxes, minority interest, extraordinary charges and cumulative effect of accounting change. EBITDA is presented because we believe it is frequently used by our lenders, securities analysts, investors and other interested parties to evaluate our operating results

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and our ability to service debt. However, other companies may calculate EBITDA differently than we do. EBITDA is not a measure of performance under generally accepted accounting principles, or GAAP, and should not be considered as an alternative to cash flows from operating activities or as a measure of liquidity or an alternative to net income as an indicator of our operating performance or any other measure of performance derived in accordance with GAAP. This data should be read in conjunction with our combined and consolidated financial statements and related notes included in this prospectus supplement and incorporated by reference into the accompanying prospectus. A

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reconciliation of EBITDA to operating income (loss) computed in accordance with GAAP is as follows:

	Year Ended December 31,		
	2000	2001	2002
	(dollars in thousands)		
EBITDA	\$(587,565)	\$ 194,220	\$ 184,421
Depreciation and amortization	(59,799)	(53,279)	(51,878)
Stockholder litigation settlement	75,406		
Equity loss and amortization of deferred gain, net	11,638	358	153
Other income	(3,099)		
Change in fair value of derivative instruments		(14,554)	(2,206)
Loss on disposals of assets	1,733	74	111
Unrealized foreign currency transaction (gain) loss	8,147	219	(622)
Operating income (loss)	\$(553,539)	\$ 127,038	\$ 129,979

- (3) The EBITDA for 2000 reflects impairment losses of \$527.9 million and the write-off of amounts under lease arrangements of \$11.9 million.
- (4) For the purpose of computing the ratio of earnings to fixed charges, earnings consist of income from continuing operations plus fixed charges, excluding capitalized interest, and fixed charges consist of interest, whether expensed or capitalized, and amortization of loan costs. Deficiency in earnings available to cover fixed charges for the year ended December 31, 2000 was \$759.1 million. This deficit is primarily the result of impairment losses of \$527.9 million and the write-off of amounts under lease arrangements of \$11.9 million. See Management's Discussion and Analysis of Financial Condition and Results of Operations and our combined and consolidated financial statements and related notes included elsewhere in this prospectus supplement.
- (5) With respect to 2000, facility operating data includes that of the three operating companies combined.
- (6) Computed by dividing aggregate facility revenue by total compensated man-days.
- (7) Computed by deducting facility operating expense per compensated man-day from revenue per compensated man-day.
- (8) The As Adjusted column gives effect to the transactions described in The Transactions and Unaudited Pro Forma Condensed Consolidated Financial Statements as if the transactions had occurred on December 31, 2002.

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**RISK FACTORS**

*You should carefully consider the risk factors set forth below, as well as the other information contained in this prospectus supplement and the accompanying prospectus and the documents incorporated or deemed to be incorporated by reference in the accompanying prospectus, before buying securities in this Notes offering. The risks described below are not the only risks facing us. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial may also materially and adversely affect our business operations. Any of the following risks could materially adversely affect our business, financial condition or results of operations.*

**Risks Related to the Offering**

*The Notes are effectively subordinated to our secured indebtedness and certain indebtedness of our subsidiaries.*

The Notes are unsecured and therefore are effectively subordinated to any of our secured indebtedness to the extent of the value of the assets securing such indebtedness. As of December 31, 2002, our total secured indebtedness was approximately \$624.5 million, which was increased by \$30.0 million in January 2003 in connection with a facility acquisition. The indenture permits us to incur additional secured indebtedness provided certain conditions are met. See Description of Notes Certain Covenants Incurrence of Indebtedness and Issuance of Preferred Stock. Consequently, in the event we are the subject of a bankruptcy, liquidation, dissolution, reorganization or similar proceeding, the holders of any secured indebtedness will be entitled to proceed against the collateral that secures the secured indebtedness, and the collateral will not be available for satisfaction of any amounts owed under our unsecured indebtedness, including the Notes. The indenture also permits our subsidiaries to incur indebtedness which may be secured by the assets of such subsidiaries. The Notes are effectively subordinated to such subsidiary indebtedness.

*There is no public market for the Notes.*

The Notes are a new issue of securities for which there is currently no trading market. Although the underwriters have advised us that they currently intend to make a market in the Notes following completion of this Notes offering, they have no obligation to do so and may discontinue such activity at any time without notice. We cannot be sure that an active trading market will develop for the Notes. Moreover, if a market were to exist, the Notes could trade at prices that may be lower than their initial offering price because of many factors, including, but not limited to:

prevailing interest rates on the markets for similar securities;

general economic conditions;

our financial condition, performance or prospects; and

the prospects for other companies in the same industry.

*Federal and state statutes allow courts, under specific circumstances, to void guarantees and require note holders to return payments received from guarantors.*

Under the federal bankruptcy law and comparable provisions of state fraudulent transfer laws, a guarantee could be voided, or claims in respect of a guarantee could be subordinated to all other debts of that guarantor, if, among other things, the guarantor, at the time it incurred the indebtedness evidenced by its guarantee:

received less than reasonably equivalent value or fair consideration for the incurrence of such guarantee;

was insolvent or rendered insolvent by reason of such incurrence;

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was engaged in a business or transaction for which the guarantor's remaining assets constituted unreasonably small capital; or  
intended to incur, or believed that it would incur, debts beyond its ability to pay such debts as they mature.

In addition, any payment by that guarantor pursuant to its guarantee could be voided and required to be returned to the guarantor, or to a fund for the benefit of the creditors of the guarantor.

The measures of insolvency for purposes of these fraudulent transfer laws will vary depending upon the law applied in any proceeding to determine whether a fraudulent transfer has occurred. Generally, however, a guarantor would be considered insolvent if:

the sum of its debts, including contingent liabilities, was greater than the fair saleable value of all of its assets;

if the present fair saleable value of its assets was less than the amount that would be required to pay its probable liability on its existing debts, including contingent liabilities, as they become absolute and mature; or

it could not pay its debts as they become due.

We cannot assure you, however, as to what standard a court would apply in making these determinations or that a court would agree with our conclusions in this regard.

## **Risks Related to Our Leveraged Capital Structure**

***Our substantial indebtedness could adversely affect our financial health and prevent us from fulfilling our obligations under our debt securities or the terms of our preferred stock.***

We have a significant amount of indebtedness. As of December 31, 2002, we had total indebtedness of \$956.0 million, which was increased by \$30.0 million in January 2003 in connection with a facility acquisition. Following completion of the transactions contemplated herein, pro forma total indebtedness at December 31, 2002 would have increased to \$1,088.8 million. The ratio of earnings to fixed charges at December 31, 2002 historical and on a pro forma basis was 1.5x and 1.4x, respectively.

Our substantial indebtedness could have important consequences to you. For example, it could:

make it more difficult for us to satisfy our obligations with respect to our indebtedness including the Notes issued in this Notes offering;

increase our vulnerability to general adverse economic and industry conditions;

require us to dedicate a substantial portion of our cash flow from operations to payments on our indebtedness, thereby reducing the availability of our cash flow to fund working capital, capital expenditures, and other general corporate purposes;

limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate;

place us at a competitive disadvantage compared to our competitors that have less debt; and

limit our ability to borrow additional funds or refinance existing indebtedness on favorable terms.

***Our senior secured credit facility and other debt instruments, including the Notes to be issued pursuant to this Notes offering, have restrictive covenants that could affect our financial condition.***

The indenture related to our 9.875% unsecured senior notes due 2009, referred to herein as 9.875% notes, the Notes to be issued in this Notes offering and our senior secured credit facility contain financial and other restrictive covenants that limit our ability to engage in activities that may be in our long-term best interests. Our ability to borrow under our senior secured credit facility is subject to financial

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covenants, including leverage, interest rate and fixed charge coverage ratios. Our senior secured credit facility limits our ability to effect mergers, asset sales and change of control events. See *Description of Certain Existing Indebtedness Senior Secured Credit Facility*. These covenants also contain restrictions regarding our ability to make capital expenditures in the future. The indenture related to the 9.875% notes and the Notes to be issued in this Notes offering also contain and will contain limitations on our ability to effect mergers and change of control events, as well as other limitations, including:

limitations on incurring additional indebtedness;

limitations on the sale of assets;

limitations on the declaration and payment of dividends or other restricted payments;

limitations on transactions with affiliates; and

limitations on liens.

See *Description of Certain Existing Indebtedness Indebtedness 9.875% Senior Notes* and *Description of Notes*. Our failure to comply with these covenants could result in an event of default which, if not cured or waived, could result in the acceleration of all of our debts. We do not have sufficient working capital to satisfy our debt obligations in the event of an acceleration of all or a significant portion of our outstanding indebtedness.

***Despite current indebtedness levels, we may still incur more debt. This could further exacerbate the risks described above.***

The terms of the indenture for our 9.875% notes, the indentures contemplated for the Notes to be issued in this Notes offering and our senior secured credit facility restrict our ability to incur significant additional indebtedness in the future. However, in the future we may refinance all or a portion of our indebtedness, including our senior secured credit facility, and incur more indebtedness as a result. If new debt is added to our and our subsidiaries current debt levels, the related risks that we and they now face could intensify. As of December 31, 2002, we had \$58.0 million available for borrowing under our senior secured credit facility. See *Description of Certain Existing Indebtedness Senior Secured Credit Facility*.

***Servicing our indebtedness will require a significant amount of cash. Our ability to generate cash depends on many factors beyond our control.***

Our ability to make payments on and to refinance our indebtedness, including the Notes to be issued in this Notes offering, and to fund planned capital expenditures will depend on our ability to generate cash in the future. This, to a certain extent, is subject to general economic, financial, competitive, legislative, regulatory and other factors that are beyond our control.

The risk exists that our business will be unable to generate sufficient cash flow from operations or that future borrowings will not be available to us under our senior secured credit facility in an amount sufficient to enable us to pay our indebtedness, including our existing senior notes, Notes to be issued in this Notes offering, or new debt securities, or to fund our other liquidity needs. We may need to refinance all or a portion of our indebtedness, including our existing senior notes, Notes to be issued in this Notes offering, or new debt securities, on or before maturity. We may not, however, be able to refinance any of our indebtedness, including our senior secured credit facility and including our existing senior notes, Notes to be issued in this Notes offering, or new debt securities, on commercially reasonable terms or at all.

***Because portions of our indebtedness have floating interest rates, a general increase in interest rates will adversely affect cash flows.***

Our senior secured credit facility bears interest at a variable rate. To the extent our exposure to increases in interest rates is not eliminated through interest rate protection agreements, such increases will adversely affect our cash flows. In accordance with terms of the senior secured credit facility, we have



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entered into an interest rate cap agreement capping LIBOR at 5.0% (prior to our contractual interest rate margin) on outstanding balances of \$200.0 million through expiration of the cap agreement on May 20, 2004. There can be no assurance that these interest rate protection provisions will be effective, or that once the interest rate protection agreement expires, we will enter into additional interest rate protection agreements. See Management's Discussion and Analysis of Financial Condition and Results of Operations - Quantitative and Qualitative Disclosures About Market Risk for a further discussion of our exposure to interest rate increases.

***We are required to repurchase all or a portion of our 9.875% notes and the Notes to be issued in this Notes offering upon a change of control.***

Upon certain change of control events, as that term is defined in the indenture for our 9.875% notes and the indenture contemplated for the Notes to be issued in this Notes offering, including a change of control caused by an unsolicited third party, we are required to make an offer in cash to repurchase all or any part of each holder's notes at a repurchase price equal to 101% of the principal thereof, plus accrued interest. The source of funds for any such repurchase would be our available cash or cash generated from operations or other sources, including borrowings, sales of equity or funds provided by a new controlling person or entity. Sufficient funds may not be available to us, however, at the time of any change of control event to repurchase all or a portion of the tendered notes pursuant to this requirement. Our failure to offer to repurchase notes, or to repurchase notes tendered, following a change of control will result in a default under the respective indentures, which could lead to a cross-default under our senior secured credit facility and under the terms of our other indebtedness. In addition, our senior secured credit facility prohibits us from making any such required repurchases. Prior to repurchasing the notes upon a change of control event, we must either repay outstanding indebtedness under our senior secured credit facility or obtain the consent of the lenders under our senior secured credit facility. If we do not obtain the required consents or repay our outstanding indebtedness under our senior secured credit facility, we would remain effectively prohibited from offering to purchase the Notes. See Description of Certain Existing Indebtedness - Senior Secured Credit Facility.

## **Risks Related to Our Business and Industry**

***Our results of operations are dependent on revenues generated by our jails, prisons and detention facilities, which are subject to the following risks associated with the corrections and detention industry.***

*General.* We currently operate 59 correctional and detention facilities including 38 that we own. The facilities we manage have a total design capacity of approximately 59,000 beds in 20 states and the District of Columbia. Accordingly, we are subject to the operating risks associated with the corrections and detention industry, including those set forth below.

*We are subject to fluctuations in occupancy levels.* While a substantial portion of our cost structure is fixed, a substantial portion of our revenues are generated under facility management contracts that specify per diem payments based upon occupancy. Under a per diem rate structure, a decrease in our occupancy rates could cause a decrease in revenue and profitability. Average compensated occupancy for our facilities in operation for 2002 and 2001 was 89.6% and 88.4%, respectively. Occupancy rates may, however, decrease below these levels in the future.

*We are subject to the termination or non-renewal of our government contracts.* We typically enter into facility management contracts with governmental entities for terms of up to five years, with additional renewal periods at the option of the contracting governmental agency. Notwithstanding any contractual renewal option of a contracting governmental agency, 34 of our facility management contracts with the customers listed under Business - Facilities and Facility Management Contracts are currently scheduled to expire on or before December 31, 2003. See Business - Facility Portfolio - Facilities and Facility Management Contracts. One or more of these contracts may not be renewed by the corresponding governmental agency. In addition, these and any other contracting agencies may determine not to exercise renewal options with respect to any of our contracts in the future. In the first quarter of 2003, the State of

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Florida terminated our contract to manage the Okeechobee Juvenile Offender Correctional Center upon the expiration of a short-term extension to the existing contract, and the Commonwealth of Virginia Department of Corrections assumed operations of the Lawrenceville Corrections Center upon expiration of our contract on March 22, 2003. Governmental agencies typically may also terminate a facility contract at any time without cause or use the possibility of termination to negotiate a lower fee for per diem rates. In the event any of our management contracts are terminated or are not renewed on favorable terms or otherwise, we may not be able to obtain additional replacement contracts. The non-renewal or termination of any of our contracts with governmental agencies could materially adversely affect our financial condition, results of operations and liquidity, including our ability to secure new facility management contracts from others.

*Competition for inmates may adversely affect the profitability of our business.* We compete with government entities and other private operators on the basis of cost, quality and range of services offered, experience in managing facilities and reputation of management and personnel. While there are barriers to entering the market for the management of correctional and detention facilities, these barriers may not be sufficient to limit additional competition. In addition, our government customers may assume the management of a facility currently managed by us upon the termination of the corresponding management contract or, if such customers have capacity at their facilities, may take inmates currently housed in our facilities and transfer them to government run facilities. Since we are paid on a per diem basis with no minimum guaranteed occupancy under certain of our contracts, the loss of such inmates and resulting decrease in occupancy would cause a decrease in our revenues and profitability. Further, many of our state customers are currently experiencing budget difficulties. These budget difficulties could result in decreases to our per diem rates, which could cause a decrease in our revenues and profitability.

*We are dependent on government appropriations.* Our cash flow is subject to the receipt of sufficient funding of and timely payment by contracting governmental entities. If the appropriate governmental agency does not receive sufficient appropriations to cover its contractual obligations, it may terminate our contract or delay or reduce payment to us. Any delays in payment, or the termination of a contract, could have an adverse effect on our cash flow and financial condition. In addition, as a result of, among other things, recent economic developments, federal, state and local governments have encountered, and may encounter, unusual budgetary constraints. As a result, a number of state and local governments are under pressure to control additional spending or reduce current levels of spending. Accordingly, we may be requested in the future to reduce our existing per diem contract rates or forego prospective increases to those rates. In addition, it may become more difficult to renew our existing contracts on favorable terms or otherwise.

*Public resistance to privatization of correctional and detention facilities could result in our inability to obtain new contracts or the loss of existing contracts.* The operation of correctional and detention facilities by private entities has not achieved complete acceptance by either governments or the public. The movement toward privatization of correctional and detention facilities has also encountered resistance from certain groups, such as labor unions and others that believe that correctional and detention facilities should only be operated by governmental agencies.

Moreover, negative publicity about an escape, riot or other disturbance or perceived poor conditions at a privately managed facility may result in publicity adverse to us and the private corrections industry in general. Any of these occurrences or continued trends may make it more difficult for us to renew or maintain existing contracts or to obtain new contracts, which could have a material adverse effect on our business.

*Our ability to secure new contracts to develop and manage correctional and detention facilities depends on many factors outside our control.* Our growth is generally dependent upon our ability to obtain new contracts to develop and manage new correctional and detention facilities. This possible growth depends on a number of factors we cannot control, including crime rates and sentencing patterns in various jurisdictions and acceptance of privatization. The demand for our facilities and services could be adversely affected by the relaxation of enforcement efforts, leniency in conviction and sentencing practices or

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through the decriminalization of certain activities that are currently proscribed by our criminal laws. For instance, any changes with respect to drugs and controlled substances or illegal immigration could affect the number of persons arrested, convicted and sentenced, thereby potentially reducing demand for correctional facilities to house them. Similarly, reductions in crime rates could lead to reductions in arrests, convictions and sentences requiring incarceration at correctional facilities.

Moreover, certain jurisdictions recently have required successful bidders to make a significant capital investment in connection with the financing of a particular project, a trend that will require us to have sufficient capital resources to compete effectively. We may not be able to obtain these capital resources when needed. Additionally, our success in obtaining new awards and contracts may depend, in part, upon our ability to locate land that can be leased or acquired under favorable terms. Otherwise desirable locations may be in or near populated areas and, therefore, may generate legal action or other forms of opposition from residents in areas surrounding a proposed site.

*Failure to comply with unique and increased governmental regulation could result in material penalties or non-renewal or termination of our contracts to manage correctional and detention facilities.* The industry in which we operate is subject to extensive federal, state and local regulations, including educational, health care and safety regulations, which are administered by many regulatory authorities. Some of the regulations are unique to the corrections industry, and the combination of regulations we face is unique. Facility management contracts typically include reporting requirements, supervision and on-site monitoring by representatives of the contracting governmental agencies. Corrections officers and juvenile care workers are customarily required to meet certain training standards and, in some instances, facility personnel are required to be licensed and subject to background investigation. Certain jurisdictions also require us to award subcontracts on a competitive basis or to subcontract with businesses owned by members of minority groups. Our facilities are also subject to operational and financial audits by the governmental agencies with which we have contracts. We may not always successfully comply with these regulations, and failure to comply can result in material penalties or non-renewal or termination of facility management contracts.

In addition, private prison managers are increasingly subject to government legislation and regulation attempting to restrict the ability of private prison managers to house certain types of inmates, such as inmates from other jurisdictions or inmates at medium or higher security levels. Legislation has been enacted in several states, and has previously been proposed in the United States House of Representatives, containing such restrictions. Although we do not believe that existing legislation will have a material adverse effect on us, future legislation may have such an effect on us.

*Government agencies may investigate and audit our contracts and, if any improprieties are found, we may be required to refund revenues we have received, to forego anticipated revenues and we may be subject to penalties and sanctions, including prohibitions on our bidding in response to Requests for Proposals, or RFPs.* Certain of the governmental agencies we contract with have the authority to audit and investigate our contracts with them. As part of that process, government agencies may review our performance of the contract, our pricing practices, our cost structure and our compliance with applicable laws, regulations and standards. For contracts that actually or effectively provide for certain reimbursement of expenses, if an agency determines that we have improperly allocated costs to a specific contract, we may not be reimbursed for those costs, and we could be required to refund the amount of any such costs that have been reimbursed. If a government audit asserts improper or illegal activities by us, we may be subject to civil and criminal penalties and administrative sanctions, including termination of contracts, forfeitures of profits, suspension of payments, fines and suspension or disqualification from doing business with certain governmental entities. Any adverse determination could adversely impact our ability to bid in response to RFPs in one or more jurisdictions.

*We depend on a limited number of governmental customers for a significant portion of our revenues.* We currently derive, and expect to continue to derive, a significant portion of our revenues from a limited number of governmental agencies. The loss of, or a significant decrease in, business from the BOP, U.S. Immigration and Naturalization Service now known as the Bureau of Immigration and Customs

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Enforcement (hereinafter referred to as INS ) or U.S. Marshals Service ( USMS ) or various state agencies could seriously harm our financial condition and results of operations. The three federal governmental agencies with correctional and detention responsibilities, the BOP, INS and USMS, accounted for approximately 32% of our total revenues for the fiscal year ended December 31, 2002 (\$308.9 million), with the BOP accounting for approximately 14% of our total revenues for such period (\$132.6 million) and USMS accounting for approximately 11% of our total revenue for such period (\$109.6 million). We expect to continue to depend upon the federal agencies and a relatively small group of other governmental customers, for a significant percentage of our revenues.

***We are dependent upon our senior management and our ability to attract and retain sufficient qualified personnel.***

We are dependent upon the continued service of each member of our senior management team, including John D. Ferguson, our President and Chief Executive Officer. The unexpected loss of any of these persons could materially adversely affect our business and operations. We only have employment agreements with our President and Chief Executive Officer; Executive Vice President and Chief Financial Officer; Executive Vice President and Chief Operating Officer; and Executive Vice President and Chief Development Officer, all of which expire in 2003 subject to annual renewals unless either party gives notice of termination.

In addition, the services we provide are labor-intensive. When we are awarded a facility management contract or open a new facility, we must hire operating management, correctional officers and other personnel. The success of our business requires that we attract, develop and retain these personnel. Our inability to hire sufficient qualified personnel on a timely basis or the loss of significant numbers of personnel at existing facilities could adversely affect our business and operations.

***We are subject to necessary insurance costs.***

Workers compensation, employee health and general liability insurance represent significant costs to us. We continue to incur increasing insurance costs due to adverse claims experience and rising healthcare costs in general. In addition, since the events of September 11, 2001, and due to concerns over corporate governance and recent corporate accounting scandals, liability and other types of insurance have become more difficult and costly to obtain. Unanticipated additional insurance costs could adversely impact our results of operations and cash flows, and the failure to obtain or maintain any necessary insurance coverage could have a material adverse effect on us.

***We may be adversely affected by inflation.***

Many of our facility management contracts provide for fixed management fees or fees that increase by only small amounts during their terms. If, due to inflation or other causes, our operating expenses, such as wages and salaries of our employees, and insurance, medical and food costs, increase at rates faster than increases, if any, in our management fees, then our profitability would be adversely affected. See Management s Discussion and Analysis of Financial Condition and Results of Operations Inflation.

***We are subject to legal proceedings associated with owning and managing correctional and detention facilities.***

Our ownership and management of correctional and detention facilities, and the provision of inmate transportation services by a subsidiary, expose us to potential third-party claims or litigation by prisoners or other persons relating to personal injury or other damages resulting from contact with a facility, its managers, personnel or other prisoners, including damages arising from a prisoner s escape from, or a disturbance or riot at, a facility we own or manage, or from the misconduct of our employees. To the extent the events serving as a basis for any potential claims are alleged or determined to constitute illegal or criminal activity, we could also be subject to criminal liability. Such liability could result in significant monetary fines and could affect our ability to bid on future contracts and retain our existing contracts. In

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addition, as an owner of real property, we may be subject to a variety of proceedings relating to personal injuries of persons at such facilities. The claims against our facilities may be significant and may not be covered by insurance. Even in cases covered by insurance, our deductible may be significant.

***We are subject to tax related risks.***

The Internal Revenue Service ( IRS ) has recently completed auditing our federal tax return for the taxable year ended December 31, 2000. The IRS has proposed an adjustment to the 2000 tax return that, if ultimately upheld by the Appeals Office of the IRS, would require us to make cash payments to the IRS in excess of \$56.0 million, not including penalties and interest. See Business Legal Proceedings and Income Tax Matters and Contingencies Income Tax Contingencies for a further description of this matter. While we believe that we have sufficient liquidity available to us to satisfy any payments required to be made, in the event we are required to make payments in connection with such claim, the payments would reduce our working capital available to satisfy amounts due under the terms of our indebtedness. Any adjustment would also substantially eliminate our net operating loss carryforward, and would result in increased cash tax liabilities on taxable income thereafter.

On October 24, 2002, we entered into a definitive settlement with the IRS in connection with the IRS audit of our predecessor s 1997 federal income tax return. Under the terms of the settlement, in consideration for the IRS final determinations with respect to the 1997 tax year, in December 2002 we paid approximately \$52.2 million in cash to satisfy federal and state taxes and interest.

Due to a change in tax law created by the Job Creation and Worker Assistance Act ( JCWAA ) of 2002, which was signed into law in March 2002, the settlement created opportunity to utilize any 2002 tax losses to claim a refund of a portion of the taxes paid. We experienced tax losses during 2002 primarily resulting from a cumulative effect of accounting change in depreciable lives for tax purposes. Under terms of the new law, we utilized our net operating losses to offset taxable income generated in 1997, which was increased substantially in connection with the settlement with the IRS. As a result of the tax law change in 2002, combined with the adoption of an accounting change in the depreciable lives of certain tax assets, we will be due an income tax refund of approximately \$32.1 million. The IRS could challenge the deduction associated with the change in depreciable lives of certain tax assets. The disallowance of all or a substantial portion of this deduction by the IRS would have a material adverse impact on our financial position, results of operations and expected cash flows.

In addition, although the IRS has concluded its audit of our federal tax return for the taxable year ended December 31, 1999, the statute of limitations for such taxable year still has not expired. Thus, our election of REIT status for 1999 remains subject to review by the IRS generally until the expiration of three years from the date of filing of our 1999 federal tax return (September 2000). Should the IRS subsequently disallow our election to be taxed as a REIT for the 1999 taxable year, we would be subject to income taxes and interest on our 1999 taxable income and possibly could be subject to penalties, which would have an adverse impact on our financial position, results of operations and cash flows.

***We are subject to risks associated with ownership of real estate.***

Our ownership of correctional and detention facilities subjects us to risks typically associated with investments in real estate. Investments in real estate, and in particular, correctional and detention facilities, are relatively illiquid and, therefore, our ability to divest ourselves of one or more of our facilities promptly in response to changed conditions is limited. Investments in correctional and detention facilities, in particular, subject us to risks involving potential exposure to environmental liability and uninsured loss. Our operating costs may be affected by the obligation to pay for the cost of complying with existing environmental laws, ordinances and regulations, as well as the cost of complying with future legislation. In addition, although we maintain insurance for many types of losses, there are certain types of losses, such as losses from earthquakes, riots and acts of terrorism, which may be either uninsurable or for which it may not be economically feasible to obtain insurance coverage, in light of the substantial costs associated with such insurance. As a result, we could lose both our capital invested in, and anticipated profits from, one or

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more of the facilities we own. Further, it is possible to experience losses that may exceed the limits of insurance coverage.

*Certain of our facilities are subject to options to purchase and reversions.* Ten of our facilities are or will be subject to an option to purchase by certain governmental agencies. Such options are exercisable by the corresponding contracting governmental entity generally at any time during the term of the respective facility management contract. See Business Facility Portfolio Facilities and Facility Management Contracts. If any of these options are exercised, there exists the risk that we will be unable to invest the proceeds from the sale of the facility in one or more properties that yield as much cash flow as the property acquired by the government entity. In addition, in the event any of these options are exercised, there exists the risk that the contracting governmental agency will terminate the management contract associated with such facility. For the year ended December 31, 2002, the facilities subject to these options generated approximately \$172.4 million in revenue (17.9% of total revenue) and incurred approximately \$136.8 million in operating expenses.

In addition, ownership of three of our facilities (including two of which are also subject to options to purchase) will, upon the expiration of certain ground leases with remaining terms generally ranging from 13 to 15 years, revert to the respective governmental agency contracting with us. See Business Facility Portfolio Facilities and Facility Management Contracts. At the time of such reversion, there exists the risk that the contracting governmental agency will terminate the management contract associated with such facility. For the year ended December 31, 2002, the facilities subject to reversion generated approximately \$60.6 million in revenue (6.3% of total revenue) and incurred approximately \$51.8 million in operating expenses.

***We may be adversely affected by the rising cost and increasing difficulty of obtaining adequate levels of surety credit on favorable terms.***

We are often required to post bid or performance bonds issued by a surety company as a condition to bidding on or being awarded a contract. Availability and pricing of these surety commitments is subject to general market and industry conditions, among other factors. Recent events in the economy have caused the surety market to become unsettled, causing many reinsurers and sureties to reevaluate their commitment levels and required returns. As a result, surety bond premiums generally are increasing. If we are unable to effectively pass along the higher surety costs to our customers, any increase in surety costs could adversely affect our operating results. We cannot assure you that we will have continued access to surety credit or that we will be able to secure bonds economically, without additional collateral, or at the levels required for any potential facility development or contract bids. If we are unable to obtain adequate levels of surety credit on favorable terms, we would have to rely upon letters of credit under our credit facility, which would entail higher costs even if such borrowing capacity was available when desired at the time, and our ability to bid for or obtain new contracts could be impaired.

***Our former independent public accountant, Arthur Andersen LLP, has been found guilty of federal obstruction of justice charges and you are unlikely to be able to exercise effective remedies against such firm in any legal action.***

Our combined and consolidated financial statements as of December 31, 2000, and for the year then ended were audited by Arthur Andersen LLP. See Experts for a discussion of the financial statements included in this prospectus supplement. On March 14, 2002, Arthur Andersen was indicted on federal obstruction of justice charges arising from the federal government's investigation of Enron Corporation. On June 15, 2002, a jury returned with a guilty verdict against Arthur Andersen following a trial. In light of the jury verdict and the underlying events, on August 31, 2002 Arthur Andersen ceased practicing before the Commission. However, we are including herein the combined and consolidated financial statements audited by Arthur Andersen as of December 31, 2000, and for the year then ended. Arthur Andersen has not performed any procedures in connection with this prospectus supplement, the accompanying prospectus or the registration statement of which this prospectus supplement is a part and has not consented to the incorporation by reference of its reports herein.

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In reliance on Rule 437a under the Securities Act, as amended (the Securities Act ), we have not filed a consent of Arthur Andersen to the inclusion of their report herein. Because Arthur Andersen has not consented to the incorporation by reference of its report in the accompanying prospectus, you will not be able to recover against Arthur Andersen under Section 11 of the Securities Act for any untrue statements of material fact contained in the financial statements audited by Arthur Andersen or any omissions to state a material fact required to be stated therein. Furthermore, relief in connection with claims that may be available to stockholders under the federal securities laws against auditing firms may not be available to stockholders as a practical matter against Arthur Andersen because it no longer operates as an accounting firm. See also Experts.

Moreover, as a public company, we are required to file with the Commission periodic financial statements audited or reviewed by an independent public accountant. The Commission has said that it will continue accepting financial statements audited by Arthur Andersen on an interim basis so long as a reasonable effort is made to have Arthur Andersen reissue its reports and to obtain a manually signed accountant's report from Arthur Andersen. Arthur Andersen has informed us that it is no longer able to reissue its audit reports because both the partner and the audit manager who were assigned to our account have left the firm. In addition, Arthur Andersen is unable to perform procedures to assure the continued accuracy of its report on our audited financial statements included in this prospectus supplement. Arthur Andersen will also be unable to perform such procedures or to provide other information or documents that would customarily be received by us or underwriters in connection with financings or other transactions, including consents and comfort letters. As a result, we may encounter delays, additional expense and other difficulties in future financings. Any resulting delay in accessing or inability to access the public capital markets could have a material adverse effect on us.

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**THE TRANSACTIONS**

We have determined to undertake a series of transactions as described below in order to enhance our capital structure and to provide us additional financing flexibility that we believe will enable us to more effectively execute our business objectives in the future. We cannot assure you that these transactions will be successfully completed. The transactions that we are undertaking are defined below:

*Notes Offering.* We are offering \$250.0 million aggregate principal amount of new senior notes due 2011. The Notes will bear interest at the rate of 7 1/2% per annum and will mature on May 1, 2011. The Notes will be senior unsecured obligations of the Company and will be guaranteed by our domestic subsidiaries. Consummation of the Notes offering will be subject to the consummation of the common stock offering.

*Common Stock Offering.* Concurrently with the Notes offering, we are also offering 6,400,000 shares of common stock for sale and a selling stockholder of the Company is offering 1,200,000 shares of common stock for sale under a separate prospectus supplement. The Company will not receive any proceeds from the sale of shares from the selling stockholder. Consummation of the common stock offering is not subject to the concurrent consummation of the other transactions described herein.

*Tender Offer for Series B Preferred Stock.* The Company is making an offer to purchase up to 90% of its outstanding series B preferred stock (approximately 4.2 million shares as of April 1, 2003). The offer price for the series B preferred stock (inclusive of all accrued and unpaid dividends) is \$26.00 per share. Consummation of the offer to purchase is subject to consummation of the common stock and the Note offerings. The offer to purchase will expire at 12:00 midnight on May 13, 2003, unless extended by us. Any shares of series B preferred stock properly tendered on or before the expiration of the offer to purchase will be purchased by us promptly following the successful consummation of this offering and the common stock offering. See Description of Capital Stock Preferred Stock Series B Preferred Stock in the accompanying prospectus.

*Purchase of Shares of Common Stock Issuable Upon Conversion of the MDP Notes.* We have entered into an agreement with MDP in which MDP has agreed to convert the \$40.0 million aggregate principal amount of our 10% convertible subordinated notes due 2008 into 3,362,899 shares of our common stock and sell such shares to us. The aggregate purchase price for the MDP shares, inclusive of estimated accrued interest of \$15.5 million, is approximately \$81.1 million. We are not obligated to purchase the MDP shares unless the common stock offering by us is consummated. See Description of Certain Existing Indebtedness \$40 Million Convertible Subordinated Notes.

*Redemption of Series A Preferred Stock.* Immediately following consummation of the common stock and the Note offerings, we intend to give notice to the holders of our outstanding series A preferred stock that approximately 90% of the series A preferred stock is being called for redemption. There are currently 4.3 million shares of series A preferred stock outstanding with a liquidation value of \$107.5 million. The dividend payment dates for the series A preferred stock are the 15th day of January, April, July and October. The redemption will consist of \$100.0 million plus accrued and unpaid dividends to the redemption date. The redemption shall be pro rata among the holders of such outstanding shares. We will not call the series A preferred stock for redemption unless we consummate the common stock offering and the Notes offering. See Description of Capital Stock Preferred Stock Series A Preferred Stock in the accompanying prospectus.

*Payments on and Amendments to Senior Secured Credit Facility.* We have a \$745.0 million senior secured credit facility, which is comprised of a \$75.0 million revolving loan (\$58.0 million available as of March 1, 2003) with a remaining term of approximately three years, a \$75.0 million term loan with the remaining term of approximately three years (\$63.8 million outstanding as of March 1, 2003) and a \$595.0 million term loan with a remaining term of approximately five years (\$590.8 million outstanding as of March 1, 2003). We intend to use the remaining net proceeds of the common stock and Notes offerings after application as described above to reduce amounts outstanding under the term loan portions of the



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senior secured credit facility, which is described and defined in Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources. In connection with the common stock offering and the Notes offering, the lenders under our senior secured credit facility have consented to the issuance of the new senior notes and the use of proceeds from the common stock and Notes offerings to purchase the shares of common stock issuable upon conversion of the MDP notes, redeem the series A preferred stock and purchase shares of series B preferred stock pursuant to the offer to purchase. In connection with the consent, we also will modify certain provisions of the senior secured credit facility generally to provide additional borrowing capacity and operational flexibility including, but not limited to, (i) providing for a possible increase in the revolving credit portion of the facility from \$75 million up to \$110 million (subject to the receipt of lender commitments), (ii) increasing our ability to incur certain indebtedness, (iii) increasing our permitted annual capital expenditures, (iv) increasing our ability to assume indebtedness in connection with an acquisition and (v) increasing our ability to make acquisitions. See Description of Certain Existing Indebtedness Senior Secured Credit Facility.

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**Table of Contents****USE OF PROCEEDS**

We expect to receive proceeds of approximately \$242.5 million from the offering of the Notes after deducting the underwriting discounts and our estimated offering expenses. The following table illustrates the estimated sources and uses of funds from this offering and the other proposed transactions. The actual amounts may differ.

<b>Sources of Funds</b>	
(dollars in thousands)	
Notes	\$250,000
Common Stock Offering, Net Proceeds <sup>(1)</sup>	117,312
	<u>\$367,312</u>
<b>Use of Funds</b>	
(dollars in thousands)	
Tender for Series B Preferred Stock <sup>(2)</sup>	\$ 97,178
Redemption of Series A Preferred Stock	101,465
MDP Repurchase	81,070
Prepay Term Loans <sup>(3)</sup>	77,202
Fees and Expenses <sup>(4)</sup>	10,397
	<u>\$367,312</u>

- 
- (1) Based upon a price to the public in the common stock offering of \$19.50 per share.
- (2) Assumes a successful tender for approximately 80% of the issued and outstanding series B preferred stock.
- (3) Subject to change to the extent we redeem more or less shares of series B preferred stock than as set forth above.
- (4) Includes approximately \$7.5 million of underwriting discounts and anticipated expenses of the Notes offering.

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**Table of Contents****CAPITALIZATION**

The following table sets forth our consolidated cash and cash equivalents and capitalization as of December 31, 2002 (1) on an actual basis and (2) on an as adjusted basis to reflect the following transactions as if they had occurred on that date:

the sale of \$250.0 million aggregate principal amount of Notes in the Notes offering and our receipt of \$242.5 million in estimated net proceeds, after deducting the underwriting discount and estimated expenses of the offering;

the sale of 6,400,000 shares of our common stock in the common stock offering and our receipt of \$117.3 million in estimated net proceeds (based on a public offering price of \$19.50 per share) after deducting the underwriting discount and estimated expenses of the offering; and

the application of the estimated net proceeds from this offering and the concurrent offering as described in Use of Proceeds and The Transactions.

	As of December 31, 2002	
	Actual	As Adjusted <sup>(1)</sup>
	(in thousands)	
<b>Cash and cash equivalents</b>	\$ 65,406	\$ 65,406
<b>Long-term debt (including current maturities):</b>		
Term loans under senior secured credit facility	\$ 624,513	\$ 547,311
12% senior notes due 2006	10,795	10,795
9.875% senior notes due 2009	250,000	250,000
7.5% senior notes due 2011		250,000
10% convertible subordinated notes due December 2008	40,000	
8% convertible subordinated notes due February 2005	30,000	30,000
Other long-term debt	651	651
Total long-term debt	955,959	1,088,757
<b>Stockholders equity:</b>		
Series A preferred stock	107,500	7,500 <sup>(2)</sup>
Series B preferred stock	107,831	16,409 <sup>(3)</sup>
Other stockholders equity	518,667	596,677
Total stockholders equity	733,998	620,586
Total capitalization	\$ 1,689,957	\$ 1,709,343

(1) The As Adjusted column gives effect to the transactions described in The Transactions and Unaudited Pro Forma Condensed Consolidated Financial Statements as if the transactions had occurred on December 31, 2002.

(2) Assumes redemption of \$100.0 million stated amount of our series A preferred stock, expected to occur approximately 30 days following consummation of the common stock offering and the Notes offering.

(3) Assumes the purchase of 3,738,000 shares (80% of shares outstanding) of our series B preferred stock pursuant to our Offer to Purchase.

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**UNAUDITED PRO FORMA CONDENSED CONSOLIDATED**

**FINANCIAL STATEMENTS**

The following unaudited pro forma condensed consolidated financial statements are based on our consolidated financial statements as of and for the year ended December 31, 2002. The transactions which are given effect to in the following unaudited pro forma condensed consolidated financial statements include:

the sale of \$250.0 million aggregate principal amount of notes in the Notes offering and our receipt of \$242.5 million in estimated net proceeds, after deducting the underwriting discount and estimated expenses of the offering;

the sale of 6,400,000 shares of our common stock in the common stock offering and our receipt of \$117.3 million in estimated proceeds, after deducting the underwriting discount and estimated expenses of the offering; and

the application of the estimated net proceeds from the common stock offering and the notes offering as described in *Use of Proceeds* and *The Transactions*.

The unaudited pro forma condensed consolidated balance sheet has been prepared as if the transactions occurred on December 31, 2002, and the pro forma condensed consolidated statement of operations has been prepared as if the transactions occurred on January 1, 2002. See *Use of Proceeds* and *The Transactions*.

The unaudited pro forma financial statements appearing below are based upon a number of assumptions and estimates and are subject to uncertainties, and do not purport to be indicative of the actual results of operations or financial condition that would have occurred had the transactions described above in fact occurred on the dates indicated, nor do they purport to be indicative of the results of operations or financial condition that we may achieve in the future.

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**Table of Contents****Corrections Corporation of America and Subsidiaries****Unaudited Pro Forma Condensed Consolidated Balance Sheet  
As of December 31, 2002  
(in thousands)**

	Actual December 31, 2002	Total Adjustments	Pro Forma December 31, 2002
<b>ASSETS</b>			
Cash and cash equivalents	\$ 65,406	\$	\$ 65,406
Restricted cash	7,363		7,363
Accounts receivable, net	122,829		122,829
Income tax receivable	32,499		32,499
Prepaid expenses and other current assets	12,435		12,435
Current assets of discontinued operations	13,815		13,815
	<hr/>		<hr/>
<b>Total Current Assets</b>	254,347		254,347
Property and equipment, net	1,552,265		1,552,265
Investment in direct financing lease	18,346		18,346
Goodwill	20,902		20,902
Other assets	28,211	6,801 (A)	35,012
	<hr/>	<hr/>	<hr/>
<b>Total Assets</b>	\$1,874,071	\$ 6,801	\$1,880,872
	<hr/>	<hr/>	<hr/>
<b>LIABILITIES &amp; STOCKHOLDERS EQUITY</b>			
Accounts payable and accrued expenses	\$ 152,905	\$ (12,585)(B)	\$ 140,320
Income tax payable	3,685		3,685
Distributions payable	5,330		5,330
Current portion of long-term debt	23,054		23,054
Current liabilities of discontinued operations	992		992
	<hr/>	<hr/>	<hr/>
<b>Total Current Liabilities</b>	185,966	(12,585)	173,381
Long-term debt, net of current portion	932,905	132,798 (C)	1,065,703
Other liabilities	21,202		21,202
	<hr/>	<hr/>	<hr/>
<b>Total Liabilities</b>	1,140,073	120,213	1,260,286
	<hr/>	<hr/>	<hr/>
<b>Stockholders Equity</b>			
Preferred stock series A	107,500	(100,000)(D)	7,500
Preferred stock series B	107,831	(91,422)(E)	16,409
Common stock	280	64 (F)	344
Additional paid-in-capital	1,343,066	91,362 (F)	1,434,428
Deferred compensation	(1,604)		(1,604)
Retained deficit	(822,111)	(13,416)(G)	(835,527)
Accumulated other comprehensive loss	(964)		(964)
	<hr/>	<hr/>	<hr/>
<b>Total Stockholders Equity</b>	733,998	(113,412)	620,586
	<hr/>	<hr/>	<hr/>
<b>Total Liabilities &amp; Stockholders Equity</b>	\$1,874,071	\$ 6,801	\$1,880,872
	<hr/>	<hr/>	<hr/>

See Footnote Explanations to these Unaudited Pro Forma Condensed Consolidated Financial Statements.



**Table of Contents****Corrections Corporation of America and Subsidiaries**

**Unaudited Pro Forma Condensed Consolidated Statement of Operations  
For the Year Ended December 31, 2002  
(In thousands, except per share amounts)**

	<b>Actual Year Ended December 31, 2002</b>	<b>Total Adjustments</b>	<b>Pro Forma Year Ended December 31, 2002</b>
<b>Revenues:</b>			
Management and other	\$959,137	\$	\$959,137
Rental	3,701		3,701
	<u>962,838</u>		<u>962,838</u>
<b>Total Revenues</b>	<b>962,838</b>		<b>962,838</b>
<b>Expenses:</b>			
Operating	744,074		744,074
General and administrative	36,907		36,907
Depreciation and amortization	51,878		51,878
	<u>832,859</u>		<u>832,859</u>
<b>Operating Income</b>	<b>129,979</b>		<b>129,979</b>
<b>Other (Income) Expense:</b>			
Equity loss of joint venture	153		153
Interest expense, net	87,478	6,979(A),(C)	94,457
Change in fair value of derivative instruments	(2,206)		(2,206)
Loss on disposals of assets	111		111
Unrealized foreign currency transaction gain	(622)		(622)
	<u>84,914</u>	<u>6,979</u>	<u>91,893</u>
<b>Income From Continuing Operations Before Income Taxes, Extraordinary Charge and Cumulative Effect of Accounting Change</b>	<b>45,065(D)</b>	<b>(6,979)</b>	<b>38,086(D)</b>
Income tax benefit	63,284		63,284
	<u>108,349</u>	<u>(6,979)</u>	<u>101,370</u>
<b>Income From Continuing Operations Before Extraordinary Charge and Cumulative Effect of Accounting Change</b>	<b>108,349</b>	<b>(6,979)</b>	<b>101,370</b>
Series A Preferred Stock Dividends	(8,600)	8,000(B)	(600)
Series B Preferred Stock Dividends	(12,359)	11,713(B),(C)	(646)
	<u>87,390</u>	<u>12,734</u>	<u>100,124</u>
<b>Income from Continuing Operations Available to Common Stockholders Before Extraordinary Charge and Cumulative Effect of Accounting Change</b>	<b>\$ 87,390</b>	<b>\$ 12,734</b>	<b>\$ 100,124</b>
<b>EPS Basic:</b>			
Income from continuing operations available to common stockholders before extraordinary charge and cumulative effect of accounting change	\$ 3.17		\$ 2.94
	<u>3.17</u>		<u>2.94</u>
<b>EPS Diluted:</b>			
Income from continuing operations available to common stockholders before extraordinary charge and cumulative effect of accounting change	\$ 2.75		\$ 2.66
	<u>2.75</u>		<u>2.66</u>

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**Weighted Average Shares:**

Basic	27,669	6,400	34,069
	<u>          </u>	<u>          </u>	<u>          </u>
Diluted	35,574	3,037	38,611
	<u>          </u>	<u>          </u>	<u>          </u>

See Footnote Explanations to these Unaudited Pro Forma Condensed Consolidated Financial Statements.

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**Table of Contents****Corrections Corporation of America and Subsidiaries****Unaudited Pro Forma Condensed Consolidated Financial Statements  
Footnote Explanations****(In thousands, except per share amounts)****NOTES TO UNAUDITED PRO FORMA CONDENSED CONSOLIDATED BALANCE SHEET DECEMBER 31, 2002**

(A) Reflects the estimated payment of \$8,405 for fees and expenses related to the issuance of \$250,000 of new senior notes, as well as a consent fee related to an amendment of our senior secured credit facility. These fees will be capitalized and amortized over the term of the new senior notes of eight years. Additionally, this adjustment reflects the reduction of capitalized debt issuance costs as a result of the conversion of the \$40,000 convertible subordinated notes and the anticipated \$77,202 prepayment of the senior secured credit facility. The gross adjustments to capitalized debt issuance costs are as follows:

Issuance of new senior notes (including related consent fee)	\$ 8,405
Conversion of \$40,000 convertible subordinated notes	(309)
Prepayment on senior secured credit facility	(1,295)
	<hr/>
Pro forma adjustment	\$ 6,801
	<hr/>

(B) Reflects the portion of the total interest payment on the \$40,000 convertible subordinated notes expected to be made on the close of the transactions, which was accrued as of December 31, 2002. The difference between the total expected interest payment of \$15,493 at May 7, 2003 and the balance accrued as of December 31, 2002 of \$12,585 is included as an adjustment to retained earnings on this pro forma balance sheet (see note G).

(C) Reflects the issuance of \$250,000 of our new senior notes, the estimated prepayment of the senior secured credit facility, and the conversion of the \$40,000 convertible subordinated notes. The gross adjustments are as follows:

Issuance of new senior notes	\$ 250,000
Prepayment on senior secured credit facility	(77,202)
Conversion of \$40,000 convertible subordinated notes	(40,000)
	<hr/>
Pro forma adjustment	\$ 132,798
	<hr/>

(D) Reflects the estimated redemption of 4,000 shares of series A preferred stock (out of 4,300 issued and outstanding) at the liquidation preference of \$25.00 per share. See footnote (G) for a discussion of the associated transaction fees.

(E) Reflects the redemption of 3,738 shares of series B preferred stock purchased under the tender offer, assuming that approximately 80% of the shares outstanding as of May 7 2003, are tendered at \$26.00 per share. The liquidation preference of the series B preferred stock is \$24.46 per share.

The maximum percentage of series B preferred stock that we are tendering for is equal to 90% of the shares issued and outstanding as of the date of the tender solicitation. Every 10 percentage point change in the percent of series B preferred stock tendered changes the payment to repurchase series B preferred stock by approximately \$11,433, including the tender premium and fees. As a result of every 10 percentage point change in the percent of series B preferred stock tendered, the amount of the prepayment on the senior secured credit facility changes by approximately \$12,327.

(F) Reflects the issuance of 6,400 shares of common stock. The pro forma calculations assume a stock issuance price of \$19.50 per share. The adjustment also reflects the issuance of 3,363 shares of common stock upon conversion of the \$40,000 convertible subordinated notes and the

purchase of those shares by the Company, as treasury stock, as soon as practicable following the closing of the common stock offering

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**Corrections Corporation of America and Subsidiaries**  
**Unaudited Pro Forma Condensed Consolidated Financial Statements**  
**Footnote Explanations**

(In thousands, except per share amounts)

at a purchase price of \$19.50 per share. Upon conversion of the \$40,000 convertible subordinated notes, the associated unamortized loan issuance costs of \$309 is charged to additional paid-in-capital. The changes to the common stock and additional paid-in-capital accounts are as follows:

	Common Stock	Paid-In Capital
Issuance of primary shares	\$ 64	\$ 124,736
Less: stock issuance costs at 6.0%		(7,488)
	64	117,248
Conversion of \$40.0 million convertible subordinated notes into 3,363 common shares and the write-off of \$309 of unamortized loan issuance costs	34	39,657
Purchase of 3,363 treasury shares	(34)	(65,543)
	\$ 64	\$ 91,362
Pro forma adjustment	\$ 64	\$ 91,362

(G) Reflects a summary of the various transaction fees and expenses and other payments that will be charged to the statement of operations in 2003 upon closing of the transactions, including (1) the series B preferred stock tender premium of \$1.54 per share; (2) fees and expenses associated with the series A preferred stock redemption and series B preferred stock tender; (3) legal and other fees associated with the conversion of the \$40,000 convertible subordinated notes; (4) the \$1,465 of series A preferred stock dividends accrued as of June 6, 2003 to be paid in cash on the shares that are redeemed; (5) a pro rata reduction in the unamortized loan issuance costs related to the senior secured credit facility as a result of the \$77,202 prepayment; and (6) the difference between the total expected interest payment of \$15,493 at May 7, 2003 and the balance accrued as of December 31, 2002 (see Note B). The table below details the components of this pro forma adjustment:

Tender premium on purchase of 3,738 shares of series B preferred stock	\$ 5,756
Series A and series B preferred stock redemption fees and expenses	1,892
\$40.0 million convertible subordinated notes conversion fees	100
Series A preferred stock dividends	1,465
Write-off of unamortized loan issuance costs senior secured credit facility	1,295
Difference between interest accrual of \$12,585 at December 31, 2002 and \$15,493 payment due at conversion on May 7, 2003 of the \$40.0 million convertible subordinated notes	2,908
	2,908
Pro forma adjustment	\$ 13,416

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**Corrections Corporation of America and Subsidiaries**  
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**Footnote Explanations**

(In thousands, except per share amounts)

**NOTES TO UNAUDITED PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 2002**

(A) Reflects the net adjustment to interest expense related to (1) additional interest expense associated with the issuance of \$250,000 of new senior notes at 7 1/2%, (2) reduction in interest expense associated with the anticipated prepayment of \$77,202 of term loans under the senior secured credit facility at a weighted average interest rate of 6.05% for the year ended December 31, 2002, (3) reduction in amortization of debt issuance costs associated with the prepayment of the senior secured credit facility, (4) amortization of debt issuance costs, amortized over the eight year term of the new senior notes, (5) elimination of interest expense associated with the conversion of the \$40,000 convertible subordinated notes, (6) reduction in amortization of debt issuance costs associated with the conversion of the \$40,000 convertible subordinated notes. The following table details the components of this pro forma adjustment:

Interest on new senior notes	\$ 18,750
Interest on senior secured credit facility	(4,671)
Amortization of debt issuance costs on senior secured credit facility	(253)
Amortization of debt issuance costs on new senior notes	1,051
Interest on \$40.0 million convertible subordinated notes	(7,847)
Amortization of debt issuance costs on \$40.0 million convertible subordinated notes	(51)
	<hr/>
Pro forma adjustment	\$ 6,979

(B) Reflects the elimination of the preferred stock dividends resulting from the redemption of the 4,000 series A preferred shares and the tender of approximately 80% of the series B preferred shares. The redemption of the series A preferred shares would result in the pro forma reduction in series A preferred dividends of \$8,000. The tender of approximately 80% of the series B preferred shares would result in the pro forma reduction in series B preferred dividends of \$11,713.

(C) The pro forma statement of operations for the year ended December 31, 2002 included herein assumes that approximately 80% of series B preferred shares are tendered. Each incremental 10% increase or decrease of series B preferred stock tendered will result in an increase/(decrease) in the following pro forma adjustments:

	<u>10% Increase</u>	<u>10% Decrease</u>
Interest expense	\$ 791	\$ (791)
Preferred dividend distributions	\$(1,435)	\$ 1,435

(D) Primarily as the result of a change in tax law, the Company experienced a significant tax benefit in 2002 which may not recur in future years. Therefore, the Company believes it is useful to compare historical pretax income from continuing operations before extraordinary charge and cumulative effect of accounting change available to common stockholders with pro forma pretax income from continuing operations before extraordinary charge and cumulative effect of accounting change available to common stockholders in analyzing the effects of the transactions. The calculation of comparative pretax income

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(In thousands, except per share amounts)

from continuing operations extraordinary charge and cumulative effect of accounting change available to common stockholders is as follows:

	Year Ended December 31, 2002	
	Actual	Pro Forma
Income from continuing operations before income taxes, extraordinary charge and cumulative effect of accounting change	\$ 45,065	\$38,086
Series A Preferred Stock Dividends	(8,600)	(600)
Series B Preferred Stock Dividends	(12,359)	(646)
	\$ 24,106	\$36,840

In addition, the transactions will provide another potential benefit because interest on the new senior notes is deductible for federal income tax purposes while preferred stock dividends are not.

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**SELECTED HISTORICAL FINANCIAL DATA**

The following table sets forth certain of our historical financial data for the five most recent fiscal years. Our selected financial data is derived from our combined and consolidated financial statements for such periods. Our audited combined and consolidated financial statements as of December 31, 2002 and 2001 and for the years ended December 31, 2002, 2001 and 2000 are included elsewhere in this prospectus supplement.

Our financial information for the years ended December 31, 2002 and 2001 is the only information presented below that fully reflects operating and financial results under our current corporate structure for full periods as an owner, operator and manager of prisons and other correctional facilities. As the result of our mergers in the fourth quarter of 2000, our financial information for the year ended December 31, 2000 set forth below reflects nine months of operations primarily as a lessor of prisons and other correctional facilities and three months of operations as an owner, operator and manager of prisons and other correctional facilities. Our financial information for the year ended December 31, 1999 set forth below reflects the results of our operations as a REIT. Our financial information for the year ended December 31, 1998 is derived from the historical financial statements of the old Corrections Corporation of America, a Tennessee corporation and a predecessor to the Company ( Old CCA ). Therefore, the selected financial information for the years ended December 31, 1998, 1999, and 2000 is not comparable to the financial information for the years ended December 31, 2002 and 2001. The following data should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations and the historical combined and consolidated financial statements and the related notes included elsewhere in this prospectus supplement which contain more detailed information with respect to our merger with Old CCA, our operations as a REIT for 1999 and our operations and mergers in 2000.

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	Year Ended December 31,				
	1998	1999	2000	2001	2002
(dollars in thousands, except per share amounts)					
<b>Statements of Operations:</b>					
Revenue:					
Management and other	\$ 626,016	\$	\$ 261,774	\$ 930,635	\$ 959,137
Rental		270,134	40,938	5,718	3,701
Licensing fees from affiliates		8,699	7,566		
Total revenue	<u>626,016</u>	<u>278,833</u>	<u>310,278</u>	<u>936,353</u>	<u>962,838</u>
Expenses:					
Operating	465,726		217,315	721,468	744,074
General and administrative	28,628	24,125	45,463	34,568	36,907
Lease	58,018				
Depreciation and amortization	12,261	44,062	59,799	53,279	51,878
Fees to Operating Company			1,401		
Write-off of amounts under lease arrangements		65,677	11,920		
Impairment losses		76,433	527,919		
Old CCA compensation charge	22,850				
Total expenses	<u>587,483</u>	<u>210,297</u>	<u>863,817</u>	<u>809,315</u>	<u>832,859</u>
Operating income (loss)	<u>38,533</u>	<u>68,536</u>	<u>(553,539)</u>	<u>127,038</u>	<u>129,979</u>
Other (Income) Expense:					
Equity (earnings) loss and amortization of deferred gain, net		(3,608)	11,638	358	153
Interest expense (income), net	(2,770)	45,036	131,545	126,242	87,478
Other (income) expense	2,043	14,567	(3,099)		
Change in fair value of derivative instruments				(14,554)	(2,206)
Loss on disposals of assets		1,995	1,733	74	111
Unrealized foreign currency transaction (gain) loss			8,147	219	(622)
Stockholder litigation settlements			75,406		
Total other (income) expense	<u>(727)</u>	<u>57,990</u>	<u>225,370</u>	<u>112,339</u>	<u>84,914</u>
Income (loss) from continuing operations before income taxes, minority interest, extraordinary charge and cumulative effect of accounting change	39,260	10,546	(778,909)	14,699	45,065
Income tax (expense) benefit	(14,280)	(83,200)	48,002	3,358	63,284
Income (loss) from continuing operations before minority interest, extraordinary charge and cumulative effect of accounting change	24,980	(72,654)	(730,907)	18,057	108,349
Minority interest in net loss of PMSI and JJFMSI			125		
Income (loss) from continuing operations before extraordinary charge and cumulative effect of accounting change	24,980	(72,654)	(730,782)	18,057	108,349
Income from discontinued operations, net of taxes	2,001			7,637	681
Extraordinary charge					(36,670)
Cumulative effect of accounting change	(16,145)				(80,276)

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Net income (loss)	10,836	(72,654)	(730,782)	25,694	(7,916)
Distributions to preferred stockholders		(8,600)	(13,526)	(20,024)	(20,959)
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Net income (loss) available to common stockholders	\$ 10,836	\$ (81,254)	\$ (744,308)	\$ 5,670	\$ (28,875)
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

**Basic earnings (loss) per share:**

Income (loss) from continuing operations before extraordinary charge and cumulative effect of accounting change	\$ 3.50	\$ (7.06)	\$ (56.68)	\$ (0.08)	\$ 3.17
Income from discontinued operations, net of taxes	0.28			0.31	0.02
Extraordinary charge					(1.33)
Cumulative effect of accounting change	(2.26)				(2.90)
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Net income (loss) available to common stockholders	\$ 1.52	\$ (7.06)	\$ (56.68)	\$ 0.23	\$ (1.04)
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

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	Year Ended December 31,				
	1998	1999	2000	2001	2002
(dollars in thousands, except per share amounts)					
<b>Diluted earnings (loss) per share:</b>					
Income (loss) from continuing operations before extraordinary charge and cumulative effect of accounting change	\$ 3.21	\$(7.06)	\$(56.68)	\$(0.08)	\$ 2.75
Income from discontinued operations, net of taxes	0.26			0.31	0.02
Extraordinary charge					(1.03)
Cumulative effect of accounting change	(2.05)				(2.26)
Net income (loss) available to common stockholders	\$ 1.42	\$(7.06)	\$(56.68)	\$ 0.23	\$(0.52)
<b>Other Financial Data:</b>					
Ratio of earnings to fixed charges (1)	2.4x	1.0x	N/A	1.1x	1.5x

	As of December 31,				
	1998	1999	2000	2001	2002
<b>Balance Sheet Data:</b>					
Cash and cash equivalents	\$ 31,141	\$ 84,493	\$ 20,889	\$ 46,307	\$ 65,406
Total assets	1,090,437	2,716,644	2,176,992	1,971,280	1,874,071
Total debt	299,833	1,098,991	1,152,570	963,600	955,959
Total liabilities excluding deferred gains	395,999	1,209,528	1,488,977	1,224,119	1,140,073
Stockholders' equity	451,986	1,401,071	688,015	747,161	733,998

- (1) For the purpose of computing the ratio of earnings to fixed charges, earnings consist of income from continuing operations plus fixed charges, excluding capitalized interest, and fixed charges consist of interest, whether expensed or capitalized, and amortization of loan costs. Deficiency in earnings available to cover fixed charges for the year ended December 31, 2000 was \$759.1 million. This deficit is primarily the result of impairment losses of \$527.9 million and the write-off of amounts under lease arrangements of \$11.9 million. See Management's Discussion and Analysis of Financial Condition and Results of Operations and our combined and consolidated financial statements and related notes included elsewhere in this prospectus supplement.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

*The following discussion should be read in conjunction with the financial statements and notes thereto appearing elsewhere in this prospectus supplement or incorporated by reference in the accompanying prospectus. 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 certain factors, including, but not limited to, those described under Risk Factors and included in other portions of this prospectus supplement.*

**Overview**

***The Company***

We are the nation's largest owner and operator of privatized correctional and detention facilities and one of the largest prison operators in the United States, behind only the federal government and four states. As of December 31, 2002, we owned 40 correctional, detention and juvenile facilities, three of which we leased to other operators, and one additional facility which is not yet in operation. As of December 31, 2002, we operated 60 facilities (including 37 facilities that we owned), with a total design capacity of approximately 59,000 beds in 21 states and the District of Columbia.

We specialize in owning, operating and managing prisons and other correctional facilities and providing inmate residential and prisoner transportation services for governmental agencies. In addition to providing the fundamental residential services relating to inmates, our facilities offer a variety of rehabilitation and education programs, including basic education, religious services, life skills and employment training and substance abuse treatment. These services are intended to reduce recidivism and to prepare inmates for their successful re-entry into society upon their release. We also provide health care (including medical, dental and psychiatric services), food services and work and recreational programs.

Our website address is <http://www.correctionscorp.com>. We make our Form 10-K, Form 10-Q and Form 8-K reports available on our website, free of charge, as soon as reasonably practicable after these reports are filed with or furnished to the SEC. Information contained on our website is not part of this prospectus supplement.

**Critical Accounting Policies**

Our 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. A summary of our significant accounting policies is described in Note 4 to our financial statements contained elsewhere in this prospectus supplement. The significant accounting policies and estimates which we believe are the most critical to aid in fully understanding and evaluating our reported financial results include the following:

*Accounts receivable.* As of December 31, 2002, accounts receivable included \$13.8 million due from the Commonwealth of Puerto Rico, classified as current assets of discontinued operations due to the termination of our contracts to manage three facilities in the Commonwealth of Puerto Rico during the second and third quarters of 2002. In February 2003, we entered into an agreement with the Commonwealth of Puerto Rico regarding the payment and resolution of the balance of the receivable. The agreement specifies payment dates for \$11.3 million, of which \$4.7 million has been collected, with the balance to be paid upon reconciliation of invoices presented. We currently expect to collect the balance of the receivable and, therefore, no allowance for doubtful accounts has been established for the accounts receivable balance. However, no assurance can be given as to the timing and ultimate collectibility of the remaining amounts due.

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*Asset impairments.* As of December 31, 2002, we had approximately \$1.6 billion in long-lived assets. We evaluate the recoverability of the carrying values of our long-lived assets, other than intangibles, when events suggest that an impairment may have occurred. In these circumstances, we utilize estimates of undiscounted cash flows to determine if an impairment exists. If an impairment exists, it is measured as the amount by which the carrying amount of the asset exceeds the estimated fair value of the asset.

*Goodwill impairments.* Effective January 1, 2002, we adopted Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets, or SFAS 142, which established new accounting and reporting requirements for goodwill and other intangible assets. Under SFAS 142, all goodwill amortization ceased effective January 1, 2002 and goodwill attributable to each of our reporting units was tested for impairment by comparing the fair value of each reporting unit with its carrying value. Fair value was determined using a collaboration of various common valuation techniques, including market multiples, discounted cash flows and replacement cost methods. These impairment tests are required to be performed at adoption of SFAS 142 and at least annually thereafter. On an ongoing basis (absent any impairment indicators), we expect to continue to perform our impairment tests during the fourth quarter, in connection with our annual budgeting process.

Based on our initial impairment tests, we recognized an impairment of \$80.3 million to write-off the carrying value of goodwill associated with our locations included in the owned and managed reporting segment during the first quarter of 2002. This goodwill was established in connection with the acquisition of Correctional Management Services Corporation, referred to herein as Operating Company. The remaining goodwill, which is associated with the facilities we manage but do not own, was deemed to be not impaired, and remains recorded on the balance sheet. This remaining goodwill was established in connection with the acquisitions of Prison Management Services, Inc., or PMSI, and Juvenile and Jail Facility Management Services, Inc., or JJFMSI, both of which were privately-held service companies, referred to herein as the Service Companies, that managed certain government-owned adult and juvenile prison and jail facilities. The implied fair value of goodwill of the locations included in the owned and managed reporting segment did not support the carrying value of any goodwill, primarily due to the highly leveraged capital structure. No impairment of goodwill allocated to the locations included in the managed-only reporting segment was deemed necessary, primarily because of the relatively minimal capital expenditure requirements, and therefore indebtedness, in connection with obtaining such management contracts. Under SFAS 142, the impairment recognized at adoption of the new rules was reflected as a cumulative effect of accounting change in our statement of operations for the first quarter of 2002. Impairment adjustments recognized after adoption, if any, are required to be recognized as operating expenses.

*Income taxes.* As of December 31, 2002, we had approximately \$141.4 million in gross deferred tax assets. Deferred income taxes reflect the net tax effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Realization of the future tax benefits related to deferred tax assets is dependent on many factors, including our ability to generate taxable income within the net operating loss carryforward period. Since the change in tax status in connection with the restructuring in 2000, and as of December 31, 2002, we have provided a valuation allowance to substantially reserve the deferred tax assets in accordance with Statement of Financial Accounting Standards No. 109, Accounting for Income Taxes, or SFAS 109. The valuation allowance is recognized based on the weight of available evidence indicating that it is more likely than not that the deferred tax assets will not be realized. This evidence primarily consists of, but is not limited to, recurring operating losses for federal tax purposes.

Our assessment of the valuation allowance could change in the future based upon our actual and projected taxable income. Removal of the valuation allowance in whole or in part would result in a non-cash reduction in income tax expense during the period of removal. In addition, because a portion of the valuation allowance as of December 31, 2002 was established to reserve certain deferred tax assets upon the acquisitions of PMSI and JJFMSI, in accordance with SFAS 109, removal of the valuation allowance would result in a reduction to any remaining goodwill recorded in connection with such acquisitions to the extent the reversal relates to the valuation allowance applied to deferred tax assets existing at the date

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PMSI and JJFMSI were acquired. If the valuation allowance as of December 31, 2002 were to be removed in its entirety, the reduction to goodwill would amount to approximately \$4.5 million. To the extent no valuation allowance is established for our deferred tax assets, future financial statements would reflect a provision for income taxes at the applicable federal and state tax rates on income before taxes.

On October 24, 2002, we entered into a definitive settlement with the Internal Revenue Service, or the IRS, in connection with the IRS's audit of our predecessor's 1997 federal income tax return. Under the terms of the settlement, in consideration for the IRS's final determinations with respect to the 1997 tax year, in December 2002 we paid approximately \$52.2 million in cash to satisfy federal and state taxes and interest.

Pursuant to the terms of the settlement, the audit adjustments agreed to for the 1997 tax year did not trigger any additional distribution requirements by us in order to preserve our status as a real estate investment trust for federal income tax purposes for 1999. The adjustments will, however, serve to increase our accumulated earnings and profits in 2002 and therefore will affect the taxability of dividends paid on our Series A and Series B Preferred Stock in 2002 and later years.

In addition, due to a change in tax law created by the Job Creation and Worker Assistance Act of 2002, which was signed into law in March 2002, the settlement created an opportunity to utilize any 2002 tax losses to claim a refund of a portion of the taxes paid. We experienced tax losses during 2002 primarily resulting from a cumulative effect of accounting change in depreciable lives for tax purposes. Under terms of the new law, we utilized our net operating losses to offset taxable income generated in 1997, which was increased substantially in connection with the settlement with the IRS. As a result of the tax law change in 2002, combined with the adoption of an accounting change in the depreciable lives of certain tax assets, we will be due an income tax refund of approximately \$32.1 million. While we do not currently expect the IRS to challenge the deduction associated with the change in depreciable lives of certain tax assets, the disallowance of all or a substantial portion of this deduction by the IRS would have a material adverse impact on our results of operations and expected cash flows.

The cumulative effect of accounting change in tax depreciation resulted in the establishment of a significant deferred tax liability for the tax effect of the book over tax basis of certain assets. The creation of such a deferred tax liability, and the significant improvement in our tax position since the original valuation allowance was established to reserve our deferred tax assets, resulted in the reduction of the valuation allowance, generating an income tax benefit of approximately \$30.3 million during the fourth quarter of 2002, as we determined that substantially all of these deferred tax liabilities will be utilized to offset the reversal of deferred tax assets during the net operating loss carryforward periods. We continue to evaluate additional tax strategies to maximize the opportunities created by the new law, which could result in an additional income tax refund and income tax benefits, although we can provide no assurance that any such tax strategies will come to fruition.

The IRS has recently completed auditing our federal tax return for the taxable year ended December 31, 2000. The IRS has proposed the disallowance of a loss we claimed as the result of our forgiveness in September 2000 of certain indebtedness of Operating Company. This finding is currently being protested with the Appeals Office of the IRS. In the event that, after we seek all available remedies, the IRS prevails, we would be required to pay the IRS in excess of \$56.0 million in cash plus penalties and interest. This adjustment would also substantially eliminate our net operating loss carryforward. We believe that we have meritorious defenses of our positions. We have not established a reserve for this matter. However, no assurance can be given that the IRS will not make such an assessment and prevail in any such claim against us.

*Self-funded insurance reserves.* As of December 31, 2002, we had approximately \$25.6 million in accrued liabilities for employee health, workers' compensation and automobile insurance. We are significantly self-insured for employee health, workers' compensation and automobile liability insurance. As such, our insurance expense is largely dependent on claims experience and our ability to control our claims. We have consistently accrued the estimated liability for employee health insurance based on our history of claims experience and time lag between the incident date and the date the cost is paid by us.

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We have accrued the estimated liability for workers' compensation and automobile insurance based on a third-party actuarial valuation of the outstanding liabilities. These estimates could change in the future.

*Legal reserves.* As of December 31, 2002, we had approximately \$20.7 million in accrued liabilities for litigation for certain legal proceedings in which we are involved. We have accrued our estimate of the probable costs for the resolution of these claims based on a range of potential outcomes. In addition, we are subject to current and potential future legal proceedings for which little or no accrual has been reflected because our current assessment of the potential exposure is nominal. These estimates have been developed in consultation with our General Counsel's office and, as appropriate, outside counsel handling these matters, and are based upon an analysis of potential results, assuming a combination of litigation and settlement strategies. It is possible, however, that future cash flows and results of operations could be materially affected by changes in our assumptions, new developments, or by the effectiveness of our strategies.

## **Results of Operations**

We do not believe the comparison between our results of operations or cash flows for the years ended December 31, 2002 and 2001 with the year ended December 31, 2000 is meaningful because the 2000 results of operations and cash flows reflect real estate activities between Operating Company and us for the period from January 1, 2000 through September 30, 2000 during a period of severe liquidity problems, and as of October 1, 2000, our financial condition, results of operations and cash flows include the operations of the correctional and detention facilities previously leased to and managed by Operating Company. In addition, our financial condition, results of operations and cash flows as of and for the year ended December 31, 2000 also include the operations of the Service Companies as of December 1, 2000 (acquisition date) on a consolidated basis. For the period January 1, 2000 through August 31, 2000, the investments in the Service Companies were accounted for and were presented under the equity method of accounting. For the period from September 1, 2000 through November 30, 2000, the investments in the Service Companies were accounted for on a combined basis due to the repurchase by the wholly-owned subsidiaries of the Service Companies of the non-management, outside stockholders' equity interest in the Service Companies during September 2000. The resulting increase in our assets and liabilities as of September 1, 2000 as a result of combining the balance sheets of PMSI and JJFMSI has been treated as a non-cash transaction in the combined statement of cash flows for the year ended December 31, 2000, with the September 1, 2000 combined cash balances of PMSI and JJFMSI (\$22.0 million) included in cash and cash equivalents, beginning of year. The economic interests in each of PMSI and JJFMSI are presented under the equity method for all periods prior to September 1, 2000. For the entire years ended December 31, 2002 and 2001, our consolidated results of operations and cash flows reflect our results as a business specializing in owning, operating and managing prisons and other correctional facilities and providing prisoner transportation services for governmental agencies.

Our 2002 and 2001 results of operations were impacted by, and the following table sets forth for the years ended December 31, 2002 and 2001, the number of facilities we owned and managed, the number of

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facilities we managed but did not own, the number of facilities we leased to other operators, and the facilities we owned that were not yet in operation.

	<u>Owned and Managed</u>	<u>Managed Only</u>	<u>Leased</u>	<u>Incomplete</u>	<u>Total</u>
<b>Facilities as of December 31, 2000</b>	40	28	4	2	74
Sale of the Mountain View Correctional Facility	(1)				(1)
Sale of Agecroft Properties, Inc., which owned an interest in the Agecroft facility located in Salford, England	(1)				(1)
Sale of the Pamlico Correctional Facility	(1)				(1)
Termination of the management contract for the Brownfield Intermediate Sanction Facility		(1)			(1)
Sale of the Southern Nevada Women's Correctional Center, and due to the amendment of the previous contract terms, continued management of the facility	(1)	1			
	<u>      </u>	<u>      </u>	<u>      </u>	<u>      </u>	<u>      </u>
<b>Facilities as of December 31, 2001</b>	36	28	4	2	70
	<u>      </u>	<u>      </u>	<u>      </u>	<u>      </u>	<u>      </u>
Termination of the management contract for the Southwest Indiana Regional Youth Village		(1)			(1)
Termination of the management contracts for facilities in Puerto Rico		(3)			(3)
Management contract award by the Federal Bureau of Prisons for the McRae Correctional Facility	1			(1)	
Sale of interest in a juvenile facility			(1)		(1)
Termination of the management contract for the Delta Correctional Center		(1)			(1)
	<u>      </u>	<u>      </u>	<u>      </u>	<u>      </u>	<u>      </u>
<b>Facilities as of December 31, 2002</b>	37	23	3	1	64
	<u>      </u>	<u>      </u>	<u>      </u>	<u>      </u>	<u>      </u>

**Year Ended December 31, 2002 Compared to Year Ended December 31, 2001**

We incurred a net loss available to common stockholders of (\$28.9) million, or (\$0.52) per diluted share, for the year ended December 31, 2002, compared with net income available to common stockholders of \$5.7 million, or \$0.23 per diluted share, for the year ended December 31, 2001.

The net loss in 2002 resulted from the combined effects of a non-cash charge for the cumulative effect of accounting change for goodwill of \$80.3 million, or \$2.26 per diluted share, related to the adoption of SFAS 142 during the first quarter of 2002 and the extraordinary charge of \$36.7 million, or \$1.03 per diluted share, incurred in connection with the comprehensive refinancing completed during the second quarter of 2002. Offsetting these charges in 2002 was an aggregate income tax benefit of \$63.3 million, which included a cash income tax benefit of \$32.2 million recognized during the first quarter of 2002 related to a change in tax law that became effective in March 2002, which enabled us to utilize certain of our net operating losses to offset taxable income generated in 1997 and 1996. In addition, approximately \$30.3 million of the income tax benefit in 2002 was due to the reduction of the tax valuation allowance applied to certain deferred tax assets arising primarily as a result of 2002 tax deductions based on a cumulative effect of accounting change for tax depreciation to be reported on our 2002 federal income tax return. Additionally, net interest expense decreased approximately \$38.8 million during 2002 compared with 2001 due to the comprehensive refinancing completed in May of 2002, as well as the reduction of debt balances outstanding through the sale of fixed assets and internally generated cash, and lower market interest rates.

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The net income available to common stockholders during 2001 included a loss from continuing operations after preferred stock distributions of \$2.0 million, or \$0.08 per diluted share, while income from discontinued operations was \$7.6 million, or \$0.31 per diluted share. Contributing to the net income attributable to common stockholders during 2001 was a non-cash gain of \$25.6 million related to the extinguishment of a \$26.1 million promissory note issued in connection with our federal stockholder litigation settlement, as further discussed below under the caption change in fair value of derivative instruments. Results for 2001 also included the non-cash effect of an \$11.1 million charge associated with the accounting for an interest rate swap agreement required under prior terms of our then existing senior secured credit facility, referred to herein as the Old Senior Bank Credit Facility.

**Facility Operations**

A key performance indicator we use to measure the revenue and expenses associated with the operation of the facilities we own or manage is expressed in terms of a compensated man-day, and represents the revenue we generate and expenses we incur for one inmate for one calendar day. Revenue and expenses per compensated man-day are computed by dividing facility revenue and expenses by the total number of compensated man-days during the period. A compensated man-day represents a calendar day for which we are paid for the occupancy of an inmate. We believe the measurement is useful because we are compensated for operating and managing facilities at an inmate per diem rate based upon actual or minimum guaranteed occupancy levels. We also measure our ability to contain costs on a per-compensated man-day basis, which is largely dependent upon the number of inmates we accommodate. Further, per man-day measurements are also used to estimate our potential profitability based on certain occupancy levels relative to design capacity. Revenue and expenses per compensated man-day for all of the facilities we owned or managed, exclusive of those discontinued (see further discussion below regarding discontinued operations), were as follows for the years ended December 31, 2002 and 2001:

	<b>For the Years Ended December 31,</b>	
	<b>2002</b>	<b>2001</b>
Revenue per compensated man-day	\$49.32	\$48.11
Operating expenses per compensated man-day:		
Fixed expense	27.72	27.28
Variable expense	10.30	9.82
<b>Total</b>	<b>38.02</b>	<b>37.10</b>
Operating margin per compensated man-day	\$ 11.30	\$ 11.01
Operating margin	22.9%	22.9%
Average compensated occupancy	89.6%	88.4%

Management and other revenue consists of revenue earned from the operation and management of adult and juvenile correctional and detention facilities we own or manage and from our inmate transportation subsidiary, which, for the years ended December 31, 2002 and 2001, totaled \$959.1 million and \$930.6 million, respectively. Business from our federal customers, including the BOP, the USMS and the INS, remains strong, while many of our state customers are currently experiencing budget difficulties. Our federal customers generated approximately 33% of our total management revenue during 2002, compared with approximately 29% during 2001. While the budget difficulties experienced by our state customers present short-term challenges with respect to our per diem rates resulting in pressure on our management revenue in future quarters, these governmental entities are also constrained with respect to funds available for prison construction. As a result, because we believe inmate populations will continue to rise, we currently expect the lack of new bed supply to lead to higher occupancies in the long-term. In addition, where customers have requested a reduction in per diem rates, we have been somewhat successful in mitigating the reduction in revenue by obtaining the flexibility to reduce our operating

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expenses, such as through the reduction in the use of our various program services or through the consolidation of inmates into fewer facilities.

Operating expenses totaled \$744.1 million and \$721.5 million for the years ended December 31, 2002 and 2001, respectively. Operating expenses consist of those expenses incurred in the operation and management of adult and juvenile correctional and detention facilities, and for our inmate transportation subsidiary.

Salaries and benefits represent the most significant component of fixed operating expenses and was the primary cause of the increase in fixed expenses per compensated man-day. During 2002 and 2001, we have incurred wage increases due to tight labor markets for correctional officers and benefit increases due to surging healthcare costs. The increase in salaries and benefits contributed approximately \$0.51 per compensated man-day to the increase in fixed expenses per compensated man-day from \$27.28 during 2001 to \$27.72 during 2002. Further, the turnover rate for correctional officers for our company, and for the corrections industry in general, also remains high. We are developing strategies to reduce our turnover rate, but we can provide no assurance that these strategies will be successful. In addition, ten of our facilities currently have contracts with the federal government requiring that our wage and benefit rates comply with wage determination rates set forth, and as adjusted from time to time, under the Service Contract Act of the U.S. Department of Labor. Our contracts generally provide for reimbursement of a portion of the increased costs resulting from wage determinations in the form of increased per diems, thereby mitigating the effect of increased salaries and benefits expenses at those facilities. We may also be subject to adverse claims, or government audits, relating to alleged violations of wage and hour laws applicable to us, which may result in adjustments to amounts previously paid as wages and, potentially interest and/or monetary penalties.

We also experienced a trend of increasing insurance expense during 2002 compared with 2001. Because we are significantly self-insured for employee health, workers compensation and automobile liability insurance, our insurance expense is dependent on claims experience and our ability to control our claims. Our insurance policies contain various deductibles and stop-loss amounts intended to limit our exposure for individually significant occurrences. However, the nature of our self-insurance provides little protection for a deterioration in claims experience or increasing employee medical costs in general. We continue to incur increasing insurance expense due to adverse claims experience primarily resulting from rising healthcare costs throughout the country. We continue to develop new strategies to improve the management of our future loss claims, but can provide no assurance that these strategies will be successful. Additionally, general liability insurance costs have risen substantially since the terrorist attacks on September 11, 2001, and other types of insurance, such as directors and officers liability insurance, are currently expected to increase due to several recent high profile business failures and concerns about corporate governance and accounting in the marketplace. Unanticipated additional insurance expenses resulting from adverse claims experience or a continued increasing cost environment for general liability and other types of insurance could result in increasing expenses in the future.

During the first quarter of 2001, we hired a General Counsel to manage our existing legal matters and to develop procedures to minimize the incidence of litigation in the future. We have been able to settle numerous cases on terms we believe are favorable. However, variable operating expenses included \$4.9 million during 2002, compared with \$0.3 million during 2001, for an overall increase in potential exposure for certain legal proceedings, none of which was individually significant. This increase of \$4.6 million contributed approximately \$0.24 per compensated man-day to the increase in variable expenses per compensated man-day from \$9.82 during 2001 to \$10.30 during 2002. Further, it is possible that future cash flows and results of operations could be materially affected by changes in our assumptions, new developments, or by the effectiveness of our litigation and settlement strategies.

The operation of the facilities we own carries a higher degree of risk associated with a management contract than the operation of the facilities we manage but do not own because we incur significant capital expenditures to construct or acquire facilities we own. Additionally, correctional and detention facilities have a limited or no alternative use. Therefore, if a management contract is terminated with respect to a



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facility we own, we continue to incur certain operating expenses, such as real estate taxes, utilities and insurance, that we would not incur if a management contract was terminated for a managed-only facility. As a result, revenue per compensated man-day is typically higher for facilities we own and manage than for managed-only facilities. Because we incur higher expenses, such as repairs and maintenance, real estate taxes and insurance, with respect to the facilities we own and manage, our cost structure for facilities we own and manage is also higher than the cost structure for the managed-only facilities. The following tables display the revenue and expenses per compensated man-day for the facilities we own and manage and for the facilities we manage but do not own:

	<b>For the Years Ended December 31,</b>	
	<b>2002</b>	<b>2001</b>
<b>Owned and Managed Facilities:</b>		
Revenue per compensated man-day	\$54.61	\$53.63
Operating expenses per compensated man-day:		
Fixed expense	29.62	29.16
Variable expense	11.34	11.03
	<u>          </u>	<u>          </u>
Total	40.96	40.19
	<u>          </u>	<u>          </u>
Operating margin per compensated man-day	\$ 13.65	\$ 13.44
	<u>          </u>	<u>          </u>
Operating margin	25.0%	25.1%
	<u>          </u>	<u>          </u>
Average compensated occupancy	83.4%	82.6%
	<u>          </u>	<u>          </u>
<b>Managed Only Facilities:</b>		
Revenue per compensated man-day	\$40.98	\$39.54
Operating expenses per compensated man-day:		
Fixed expense	24.72	24.37
Variable expense	8.67	7.94
	<u>          </u>	<u>          </u>
Total	33.39	32.31
	<u>          </u>	<u>          </u>
Operating margin per compensated man-day	\$ 7.59	\$ 7.23
	<u>          </u>	<u>          </u>
Operating margin	18.5%	18.3%
	<u>          </u>	<u>          </u>
Average compensated occupancy	101.4%	99.4%
	<u>          </u>	<u>          </u>

*Owned and Managed Facilities.* On May 30, 2002, we were awarded a contract by the BOP to house 1,524 federal detainees at our McRae Correctional Facility located in McRae, Georgia. The three-year contract, awarded as part of the Criminal Alien Requirement Phase II Solicitation, or CAR II, also provides for seven one-year renewals. The contract with the BOP guarantees at least 95% occupancy on a take-or-pay basis, and commenced full operations in December of 2002, resulting in an increase in management and other revenue upon commencement. However, start-up expenses were incurred prior to the commencement of the contract, including but not limited to, salaries, utilities, medical and food supplies and clothing, which resulted in additional operating expenses before any revenue was generated, resulting in a reduction in net income during the third and fourth quarters of 2002.

During 2001, we provided correctional services for the State of Wisconsin at four of our facilities. During the fourth quarter of 2001, due to a short-term decline in the State of Wisconsin's inmate population, the State transferred approximately 675 inmates out of our 1,536-bed Whiteville Correctional Facility, located in Whiteville, Tennessee, to the State's correctional system, reducing the population of Wisconsin inmates in our facilities to approximately 3,400. Although the State of Wisconsin continued transferring inmates out of our facilities during the first quarter of 2002, our population of Wisconsin



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inmates has gradually increased, primarily at our 1,338-bed Prairie Correctional Facility, located in Appleton, Minnesota. Total management and other revenue at the Whiteville facility decreased \$8.9 million, or 39.9%, during 2002 compared with 2001.

During September 2002, we announced a contract award from the State of Wisconsin to house up to a total of 5,500 medium security Wisconsin inmates. The new contract replaced the existing contract with the State of Wisconsin on December 22, 2002. As of December 31, 2002, we managed approximately 3,500 Wisconsin inmates under the contract.

During October 2002, we entered into a new agreement with Hardeman County, Tennessee, with respect to the management of up to 1,536 medium security inmates from the State of Tennessee in the Whiteville Correctional Facility. We have begun to receive Tennessee inmates at the facility, and expect to continue receiving inmates under this contract through the first quarter of 2003. We expect this contract to contribute to an increase in management revenue during 2003.

Due to an increase in population at our 2,304-bed Central Arizona Detention Center, located in Florence, Arizona, and at our 910-bed Torrance County Detention Facility, located in Estancia, New Mexico, primarily from the USMS and the INS, management and other revenue increased \$8.6 million and \$6.8 million, respectively, at these facilities during 2002 compared with 2001.

The aforementioned acquisition in January 2003 of the Crowley County Correctional Facility, located in Olney Springs, Colorado, is expected to provide favorable investment returns contributing to an increase in our management revenue during 2003, while adding capacity in a state where projections call for significant inmate growth over the next several years.

During the second quarter of 2001, we were informed that our contract with the District of Columbia to house its inmates in our Northeast Ohio Correctional Center, which expired September 8, 2001, would not be renewed due to a new law that mandated that the BOP assume jurisdiction of all District of Columbia offenders by the end of 2001. The Northeast Ohio Correctional Center is a 2,016-bed medium security prison. The District of Columbia began transferring inmates out of the facility during the second quarter of 2001 and completed the process in July 2001. Total management and other revenue at this facility was approximately \$6.4 million during the year ended December 31, 2001. The related operating expenses at this facility were \$12.6 million during the year ended December 31, 2001. While no revenue was generated from this facility during 2002, we incurred approximately \$2.9 million of operating expenses during the year ended December 31, 2002 for real estate taxes, utilities, insurance and other necessary expenses associated with owning the facility. Overall, our occupancy decreased by approximately 1,300 inmates at our facilities as a result of this mandate. We have engaged in discussions with the BOP regarding a sale of the Northeast Ohio Correctional Center to the BOP, and are also continually exploring opportunities to reopen the facility; however, there can be no assurance that we will be able to reach agreements on a sale or to reopen this facility.

*Managed-Only Facilities.* During the fourth quarter of 2001, we committed to a plan to terminate our management contract at the Southwest Indiana Regional Youth Village, a 188-bed juvenile facility located in Vincennes, Indiana. During the first quarter of 2002, we entered into a mutual agreement with Children and Family Services Corporation, or CFSC, to terminate our management contract at the facility, effective April 1, 2002, prior to the contract's expiration date in 2004. In connection with the mutual agreement to terminate the management contract, CFSC also paid in full an outstanding note receivable totaling approximately \$0.7 million, which was previously considered uncollectible and was fully reserved. The termination of this management contract has not had a material impact on our financial statements. Because management committed to the termination of this management contract prior to the effective date of Statement of Financial Accounting Standards No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, or SFAS 144, the results of operations were not reported in discontinued operations.

On June 28, 2002, we received notice from the Mississippi Department of Corrections terminating our contract to manage the 1,016-bed Delta Correctional Facility located in Greenwood, Mississippi, due to the non-appropriation of funds. We ceased operations of the facility in October 2002. However, the State

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of Mississippi agreed to expand the management contract at the Wilkinson County Correctional Facility located in Woodville, Mississippi to accommodate an additional 100 inmates. As a result, the results of operations of the Delta Correctional Facility are not reported in discontinued operations. These events are not expected to have a material impact on our financial statements.

During July 2002, we renewed our contract with Tulsa County, Oklahoma, for the management of inmates at the David L. Moss Criminal Justice Center. The contract renewal included an increase in the per diem rate, and also shifted to Tulsa County, the burden of certain utility expenses, resulting in a modest improvement in profitability for the management of this facility during 2002, compared with 2001.

During the fourth quarter of 2002, we were informed by the State of Florida of its intention to terminate our contract to manage the 96-bed Okeechobee Juvenile Offender Correctional Center located in Okeechobee, Florida, upon the expiration of a short-term extension to the existing management contract, which expired in December 2002. This termination, which occurred February 28, 2003, is not expected to have a material effect on the Company's financial statements. During 2002, this facility generated total revenue and total operating expenses of \$4.8 million and \$4.0 million, respectively.

On March 18, 2003, we were notified by the Department of Corrections of the Commonwealth of Virginia of its intention to terminate our contract to manage the 1,500-bed Lawrenceville Correctional Center located in Lawrenceville, Virginia, upon the expiration of the contract on March 22, 2003. This termination, which occurred on March 22, 2003, is not expected to have a material effect on our financial statements. During 2002, this facility generated total revenue and total operating expenses of \$20.3 million and \$18.7 million, respectively.

***Rental revenue***

Rental revenue was \$3.7 million for the year ended December 31, 2002, compared with \$5.7 million during the year ended December 31, 2001. Rental revenue was generated from leasing correctional and detention facilities to governmental agencies and other private operators. On March 16, 2001, we sold the Mountain View Correctional Facility, and on June 28, 2001, we sold the Pamlico Correctional Facility, two facilities that had been leased to governmental agencies. Therefore, no further rental revenue has been received for these facilities during the year ended December 31, 2002. For the year ended December 31, 2001, rental revenue for these facilities totaled \$2.0 million.

***General and administrative expense***

For the years ended December 31, 2002 and 2001, general and administrative expenses totaled \$36.9 million and \$34.6 million, respectively. General and administrative expenses consist primarily of corporate management salaries and benefits, professional fees and other administrative expenses, and increased from 2001 primarily due to an increase in professional fees incurred in connection with the implementation of tax strategies to maximize opportunities created by a change in tax law in March 2002 and the aforementioned settlement with the IRS with respect to our predecessor's 1997 federal income tax return. This increase was partially offset by a reduction in salaries and benefits, including incentive compensation.

***Depreciation and amortization***

For the years ended December 31, 2002 and 2001, depreciation and amortization expense totaled \$51.9 million and \$53.3 million, respectively. Amortization expense for the year ended December 31, 2001 included approximately \$7.6 million for goodwill and \$1.2 million for amortization of workforce values, both of which were established in connection with acquisitions occurring in 2000. Workforce values were reclassified into goodwill and goodwill was no longer subject to amortization effective January 1, 2002, in accordance with a new accounting pronouncement, as further discussed under *Recent Accounting Pronouncements* herein. Amortization expense during the year ended December 31, 2001 is also net of a reduction to amortization expense of \$8.5 million for the amortization of a liability relating to contract values established in connection with the mergers completed in 2000. Due to certain of these liabilities

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becoming fully amortized during 2001, the reduction to amortization expense during the year ended December 31, 2002 was \$2.1 million, resulting in a net increase in depreciation and amortization expense of \$6.4 million from 2001 to 2002.

***Interest expense, net***

Interest expense, net, is reported net of interest income for the years ended December 31, 2002 and 2001. Gross interest expense was \$91.9 million and \$133.7 million, respectively, for the years ended December 31, 2002 and 2001. Gross interest expense is based on outstanding convertible subordinated notes payable balances, borrowings under the senior secured credit facility, the Old Senior Bank Credit Facility, the 9.875% notes, the 12% senior unsecured notes due 2006, referred to herein as 12% Senior Notes, net settlements on an interest rate swap, and amortization of loan costs and unused facility fees. The decrease in gross interest expense from the prior year is primarily attributable to lower average outstanding indebtedness, the comprehensive refinancing completed on May 3, 2002, which decreased the interest rate spread on the senior secured credit facility, the termination of the interest rate swap agreement, lower amortization of loan costs, and a lower interest rate environment. During 2001, we paid-down \$189.0 million in total debt through a combination of \$138.7 million in cash generated from asset sales and internally generated cash.

Gross interest income was \$4.4 million and \$7.5 million, respectively, for years ended December 31, 2002 and 2001. Gross interest income is earned on cash collateral requirements, direct financing leases, notes receivable and investments of cash and cash equivalents. On October 3, 2001, we sold our Southern Nevada Women's Correctional Facility, which had been accounted for as a direct financing lease. Therefore, no interest income was received on this lease during 2002. For the year ended December 31, 2001, interest income for this lease totaled \$0.9 million. Subsequent to the sale, we continue to manage the facility pursuant to a contract with the State of Nevada.

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

In accordance with Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities, or SFAS 133, as amended, we have reflected in earnings the change in the estimated fair value of our interest rate swap agreement during the years ended December 31, 2002 and 2001. We estimated the fair value of the interest rate swap agreement using option-pricing models that value the potential for the interest rate swap agreement to become in-the-money through changes in interest rates during the remaining term of the agreement. A negative fair value represented the estimated amount we would have to pay to cancel the contract or transfer it to other parties.

Our swap agreement fixed LIBOR at 6.51% (prior to the applicable spread) on outstanding balances of at least \$325.0 million through its expiration on December 31, 2002. In accordance with SFAS 133, we recorded a \$2.2 million non-cash gain and an \$11.1 million non-cash charge, respectively, for the change in fair value of the swap agreement for the years ended December 31, 2002 and 2001. These amounts included \$2.5 million for amortization of the transition adjustment, or the cumulative reduction in the fair value of the swap from its inception to the date we adopted SFAS 133 on January 1, 2001, during each year. We were no longer required to maintain the existing interest rate swap agreement due to the early extinguishment of the Old Senior Bank Credit Facility. During May 2002, we terminated the swap agreement prior to its expiration at a price of approximately \$8.8 million. In accordance with SFAS 133, we continued to amortize the unamortized portion of the transition adjustment as a non-cash expense through December 31, 2002.

The senior secured credit facility required us to hedge at least \$192.0 million of the term loan portions of the facility within 60 days following the closing of the loan. In May 2002, we entered into an interest rate cap agreement to fulfill this requirement, capping LIBOR at 5.0% (prior to the applicable spread) on outstanding balances of \$200.0 million through the expiration of the cap agreement on May 20, 2004. We paid a premium of \$1.0 million to enter into the interest rate cap agreement. We expect to

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amortize this premium as the estimated fair values assigned to each of the hedged interest payments expire throughout the term of the cap agreement, amounting to \$0.4 million in 2003 and \$0.6 million in 2004. We have met the hedge accounting criteria under SFAS 133 and related interpretations in accounting for the interest rate cap agreement. As a result, the estimated fair value of the interest rate cap agreement of \$36,000 as of December 31, 2002 was included in other assets in the consolidated balance sheet, and the change in the fair value of the interest rate cap agreement of \$964,000 during the year ended December 31, 2002 was reported through other comprehensive income in the statement of stockholders' equity. There can be no assurance that the interest rate cap agreement will be effective in mitigating our exposure to interest rate risk in the future, or that we will be able to continue to meet the hedge accounting criteria under SFAS 133.

On December 31, 2001, we issued approximately 2.8 million shares of common stock, along with a \$26.1 million subordinated promissory note, in conjunction with the final settlement of the federal court portion of our stockholder litigation settlement. Under the terms of the promissory note, the note and accrued interest became extinguished in January 2002 once the average closing price of the common stock exceeded a termination price equal to \$16.30 per share for fifteen consecutive trading days following the issuance of such note. The terms of the note, which allowed the principal balance to fluctuate dependent on the trading price of our common stock, created a derivative instrument that was valued and accounted for under the provisions of SFAS 133. As a result of the extinguishment, we estimated the fair value of this derivative to approximate the face amount of the note, resulting in an asset being recorded during the fourth quarter of 2001. The derivative asset offsets the face amount of the note in the consolidated balance sheet as of December 31, 2001. Since the estimated fair value of the derivative asset was equal to the face amount of the note as of December 31, 2001, the extinguishment had no financial statement impact in 2002.

While the state court portion of the stockholder litigation settlement has also been settled, the payment of the settlement proceeds to the state court plaintiffs has not yet been completed; however, the settlement payment is expected to result in the issuance of approximately 0.3 million additional shares of common stock and a \$2.9 million subordinated promissory note, which may also be extinguished if the average closing price of our common stock meets or exceeds \$16.30 per share for fifteen consecutive trading days following the note's issuance and prior to its maturity in 2009. Additionally, to the extent our common stock price does not meet the termination price, the note will be reduced by the amount that the shares of common stock issued to the plaintiffs appreciate in value in excess of \$4.90 per share, based on the average trading price of the stock following the date of the note's issuance and prior to the maturity of the note. If the remaining promissory note is issued under the current terms, in accordance with SFAS 133, as amended, we will reflect in earnings the change in the estimated fair value of the written option embedded in the promissory note from quarter to quarter. Since we have reflected the maximum obligation of the contingency associated with the state court portion of the stockholder litigation in the consolidated balance sheet as of December 31, 2002, the issuance of the note is currently expected to have a favorable impact on our consolidated financial position and results of operations initially; thereafter, the financial statement impact will fluctuate based on changes in our stock price. However, the impact cannot be determined until the promissory note is issued and an estimated fair value of the derivative included in the promissory note is determined. The note is currently expected to be issued during 2003.

***Income tax benefit***

We generated income tax benefits of approximately \$63.3 million and \$3.4 million for the years ended December 31, 2002 and 2001, respectively. The increase in the income tax benefit during the year ended December 31, 2002, primarily resulted from the Job Creation and Worker Assistance Act of 2002 which was signed into law on March 9, 2002. Among other changes, the tax law extends the net operating loss carryback period to five years from two years for net operating losses arising in tax years ending in 2001 and 2002, and allows use of net operating loss carrybacks and carryforwards to offset 100% of the alternative minimum taxable income. We experienced net operating losses during 2001 resulting primarily from the sale of assets at prices below the tax basis of such assets. Under terms of the new law, we

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utilized certain of our net operating losses to offset taxable income generated in 1997 and 1996. As a result of this tax law change in 2002, we reported an income tax benefit and claimed a refund of approximately \$32.2 million during the first quarter of 2002, which was received in April 2002.

On October 24, 2002, we entered into a definitive settlement with the IRS in connection with the IRS's audit of our predecessor's 1997 federal income tax return. Under the terms of the settlement, in consideration for the IRS's final determinations with respect to the 1997 tax year, in December 2002 we paid approximately \$52.2 million in cash to satisfy federal and state taxes and interest.

Due to the change in tax law in March 2002, the settlement created an opportunity to utilize any 2002 tax losses to claim a refund of a portion of the taxes paid. We experienced tax losses during 2002 primarily resulting from a cumulative effect of accounting change in depreciable lives for tax purposes. Under terms of the new law, we utilized our net operating losses to offset taxable income generated in 1997, which was increased substantially in connection with the settlement with the IRS. As a result of the tax law change in 2002, combined with the adoption of an accounting change in the depreciable lives of certain tax assets, we will be due an income tax refund of approximately \$32.1 million.

The cumulative effect of accounting change in tax depreciation resulted in the establishment of a significant deferred tax liability for the tax effect of the book over tax basis of certain assets. The creation of such a deferred tax liability, and the significant improvement in our tax position since the original valuation allowance was established to reserve our deferred tax assets, resulted in the reduction of the valuation allowance, generating an income tax benefit of approximately \$30.3 million during the fourth quarter of 2002, as we determined that substantially all of these deferred tax liabilities will be utilized to offset the reversal of deferred tax assets during the net operating loss carryforward periods. We continue to evaluate additional tax strategies to maximize the opportunities created by the new law, which could result in an additional income tax refund and income tax benefits, although we can provide no assurance that any such tax strategies will come to fruition.

As of December 31, 2002, our gross deferred tax assets totaled approximately \$141.4 million. Deferred income taxes reflect the net tax effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Realization of the future tax benefits related to deferred tax assets is dependent on many factors, including our ability to generate taxable income within the net operating loss carryforward period. Since the change in tax status in connection with the restructuring in 2000, and as of December 31, 2002, we have provided a valuation allowance to substantially reserve the deferred tax assets in accordance with SFAS 109. The valuation allowance is recognized based on the weight of available evidence indicating that it is more likely than not that the deferred tax assets will not be realized. This evidence primarily consists of, but is not limited to, recurring operating losses for federal tax purposes.

Our assessment of the valuation allowance could change in the future based upon our actual and projected taxable income. Removal of the valuation allowance in whole or in part would result in a non-cash reduction in income tax expense during the period of removal. In addition, because a portion of the valuation allowance as of December 31, 2002 was established to reserve certain deferred tax assets upon the acquisitions of PMSI and JJFMSI, in accordance with SFAS 109, removal of the valuation allowance would result in a reduction to any remaining goodwill recorded in connection with such acquisitions to the extent the reversal relates to the valuation allowance applied to deferred tax assets existing at the date PMSI and JJFMSI were acquired. If the valuation allowance as of December 31, 2002 were to be removed in its entirety, the reduction to goodwill would amount to approximately \$4.5 million. To the extent no valuation allowance is established for our deferred tax assets, future financial statements would reflect a provision for income taxes at the applicable federal and state tax rates on income before taxes.

***Discontinued Operations***

In late 2001 and early 2002, we were provided notice from the Commonwealth of Puerto Rico of its intention to terminate the management contracts at the 500-bed multi-security Ponce Young Adult Correctional Facility and the 1,000-bed medium-security Ponce Adult Correctional Facility, located in

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Ponce, Puerto Rico, upon the expiration of the management contracts in February 2002. Attempts to negotiate continued operation of these facilities were unsuccessful. As a result, the transition period to transfer operation of the facilities to the Commonwealth of Puerto Rico ended May 4, 2002, at which time operation of the facilities was transferred to the Commonwealth of Puerto Rico. During 2002, these facilities generated total revenue of \$7.9 million and operating expenses of \$7.4 million, respectively. We recorded a non-cash charge as discontinued operations of approximately \$1.8 million during the second quarter of 2002 for the write-off of the carrying value of assets associated with these terminated management contracts. During 2001, these facilities generated total revenue of \$22.6 million and operating expenses of \$19.3 million.

During the fourth quarter of 2001, we obtained an extension of our management contract with the Commonwealth of Puerto Rico for the operation of the 1,000-bed Guayama Correctional Center located in Guayama, Puerto Rico, through December 2006. However, on May 7, 2002, we received notice from the Commonwealth of Puerto Rico terminating our contract to manage this facility, which occurred on August 6, 2002. During 2002, this facility generated total revenue of \$12.3 million and operating expenses of \$9.9 million, respectively. During 2001, this facility generated total revenue of \$21.1 million and operating expenses of \$12.7 million.

On June 28, 2002, we sold our interest in a juvenile facility located in Dallas, Texas for approximately \$4.3 million. The facility, which was designed to accommodate 900 at-risk juveniles, was leased to an independent third party operator pursuant to a lease expiring in 2008. Net proceeds from the sale were used for working capital purposes. This facility generated rental income of \$0.4 million and \$0.7 million during 2002 and 2001, respectively.

During 2002, depreciation and amortization, interest income, and income tax expense totaled \$2.5 million, \$0.6 million, and \$0.6 million, respectively, for these facilities. During 2001, depreciation and amortization, interest income, and income tax expense totaled \$0.9 million, \$0.6 million, and \$4.5 million, respectively, for these facilities.

Due to the sale of the juvenile facility, and due to the termination of the contracts to manage the three facilities in Puerto Rico, in accordance with SFAS 144, the operations of these facilities, net of taxes, were reported as discontinued operations during 2002 and 2001. The reclassification was not made for 2000, however, as the discontinued operations were not material in that year, and because the 2000 financial statements are not comparable to the 2001 and 2002 financial statements, as previously discussed herein.

**Year Ended December 31, 2000**

***Management revenue***

Management revenue consisted of revenue earned from the operation and management of adult and juvenile correctional and detention facilities for the year ended December 31, 2000, totaling \$182.5 million, which, beginning as of October 1, 2000 and December 1, 2000, included management revenue previously earned by Operating Company and the Service Companies, respectively. Also included was the management revenue earned by the Service Companies from the operation and management of adult prisons and jails and juvenile detention facilities on a combined basis for the period September 1, 2000 through November 30, 2000, totaling \$79.3 million.

***Rental revenue***

Net rental revenue was \$40.9 million for the year ended December 31, 2000 and was generated from leasing correctional and detention facilities to Operating Company, governmental agencies and other private operators. For the year ended December 31, 2000, we reserved \$213.3 million of the \$244.3 million of gross rental revenue due from Operating Company through September 30, 2000 due to the uncertainty regarding the collectibility of the payments. During September 2000, we forgave all unpaid rental payments due from Operating Company as of August 31, 2000 (totaling \$190.8 million). The forgiveness



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did not impact our financial statements at that time as the amounts forgiven had been previously reserved. The remaining \$22.5 million in unpaid rentals from Operating Company was fully reserved in September 2000. The leases with Operating Company were cancelled in connection with the merger acquisition of Operating Company.

*Licensing fees from affiliates*

Licensing fees from affiliates were \$7.6 million for the year ended December 31, 2000. Licensing fees were earned as a result of a trade name use agreement between us and Operating Company, which granted Operating Company the right to use the name Corrections Corporation of America and derivatives thereof subject to specified terms and conditions therein. The licensing fee was based upon gross rental revenue of Operating Company, subject to a limitation based on our gross revenue. All licensing fees were collected from Operating Company.

*Operating expenses*

Operating expenses included the operating expenses of the Service Companies on a combined basis for the period September 1, 2000 through November 30, 2000, totaling \$64.5 million. Also included were the operating expenses we incurred for the year ended December 31, 2000, totaling \$152.8 million, which, beginning as of October 1, 2000 and December 1, 2000, included the operating expenses incurred by Operating Company and the Service Companies, respectively. Operating expenses consisted of those expenses incurred in the operation and management of prisons and other correctional facilities. Also included in operating expenses were our realized losses on foreign currency transactions of \$0.6 million for the year ended December 31, 2000. These losses resulted from a detrimental fluctuation in the foreign currency exchange rate upon the collection of certain receivables denominated in British pounds. See Unrealized foreign currency transaction loss for further discussion of these receivables.

*General and administrative expense*

For the year ended December 31, 2000, general and administrative expense was \$45.5 million. During the fourth quarter of 1999, we entered into a series of agreements concerning a proposed restructuring led by a group of institutional investors consisting of an affiliate of Fortress Investment Group LLC and affiliates of The Blackstone Group. In April 2000, the securities purchase agreement by and among the parties was terminated when Fortress/ Blackstone elected not to match the terms of a subsequent proposal by Pacific Life Insurance Company. In June 2000, our securities purchase agreement with Pacific Life was mutually terminated by the parties after Pacific Life was unwilling to confirm that the June 2000 waiver and amendment to our Old Senior Bank Credit Facility satisfied the terms of the agreement with Pacific Life. In connection with the proposed restructuring transactions with Fortress/ Blackstone and Pacific Life and the completion of the restructuring, including the Operating Company merger, we terminated the services of one of our financial advisors during the third quarter of 2000. For the year ended December 31, 2000, we accrued expenses of approximately \$24.3 million in connection with existing and potential litigation associated with the termination of the aforementioned agreements. All disputes with these parties have since been settled or otherwise resolved.

General and administrative expenses incurred by the Service Companies on a combined basis for the period September 1, 2000 through November 30, 2000 totaled \$0.6 million. Additional general and administrative expenses incurred for the year ended December 31, 2000 totaled \$20.6 million, which, beginning as of October 1, 2000 and December 1, 2000, included the general and administrative expenses incurred by Operating Company and the Service Companies, respectively. These additional general and administrative expenses consisted primarily of corporate management salaries and benefits, professional fees and other administrative expenses. Effective October 1, 2000, as a result of the Operating Company merger, corporate management salaries and benefits also contained the former corporate employees of Operating Company. Also included in these additional general and administrative expenses were \$2.0 million in severance payments to our former chief executive officer and secretary and \$1.3 million in severance payments to various other company employees.

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***Depreciation and amortization***

For the year ended December 31, 2000, depreciation and amortization expense was \$59.8 million, including depreciation and amortization expense for the Service Companies from the operation and management of adult prisons and jails and juvenile detention facilities on a combined basis for the period September 1, 2000 through November 30, 2000, totaling \$3.9 million.

***License fees to Operating Company***

Licensing fees to Operating Company were recognized under the terms of a trade name use agreement between Operating Company and each of the Service Companies, which were assumed as a result of the Operating Company merger. Under the terms of the trade name use agreement, the Service Companies were required to pay to Operating Company 2.0% of gross management revenue for the use of the Corrections Corporation of America name and derivatives thereof. The Service Companies incurred expenses of \$0.5 million under this agreement for the month of September 2000. The October and November expenses incurred under this agreement were eliminated in combination, subsequent to the Operating Company merger. The trade name use agreement was cancelled upon the acquisitions of the Service Companies.

***Administrative services fee to Operating Company***

Operating Company and each of the Service Companies were parties to an administrative services agreement whereby Operating Company would charge a fee to manage and provide general and administrative services to each of the Service Companies. We assumed this agreement as a result of the Operating Company merger. The Service Companies recognized expenses of \$0.9 million under this agreement for the month of September 2000. The October and November expenses incurred under this agreement were eliminated in combination, subsequent to the Operating Company merger. The administrative services agreement was cancelled upon the acquisitions of the Service Companies.

***Write-off of amounts under lease arrangements***

During 2000, we opened or expanded five facilities that were operated and leased by Operating Company prior to the Operating Company merger. Based on Operating Company's financial condition, as well as the proposed merger with Operating Company and the proposed termination of the Operating Company leases in connection therewith, we wrote-off the accrued tenant incentive fees due Operating Company in connection with opening or expanding the five facilities, totaling \$11.9 million for the year ended December 31, 2000.

***Impairment losses***

Statement of Financial Accounting Standards No. 121, Accounting for the Impairment of Long-Lived Assets and Long-Lived Assets to be Disposed Of, or SFAS 121, required impairment losses to be recognized for long-lived assets used in operations when indications of impairment were present and the estimate of undiscounted future cash flows was not sufficient to recover asset carrying amounts.

Following the completion of the Operating Company merger and the acquisitions of PMSI and JJFMSI, during the fourth quarter of 2000, after considering our financial condition, our new management developed a strategic operating plan to improve our financial position, and developed revised projections to evaluate various potential transactions. Management also conducted strategic assessments and evaluated our assets for impairment. Further, management evaluated the utilization of existing facilities, projects under development, excess land parcels, and identified certain of these non-strategic assets for sale.

In accordance with SFAS 121, we estimated the undiscounted net cash flows for each of our properties and compared the sum of those undiscounted net cash flows to our investment in each property. Through these analyses, we determined that eight of our correctional and detention facilities and the long-lived assets of the transportation business had been impaired. For these properties, we reduced the carrying

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values of the underlying assets to their estimated fair values, as determined based on anticipated future cash flows discounted at rates commensurate with the risks involved. The resulting impairment loss totaled \$420.5 million.

During the fourth quarter of 2000, as part of management's strategic assessment, we committed to a plan of disposal for certain of our long-lived assets. In accordance with SFAS 121, we recorded losses on these assets based on the difference between the carrying value and the estimated net realizable value of the assets. We estimated the net realizable values of certain facilities and direct financing leases held for sale based on outstanding offers to purchase, appraisals, as well as utilizing various financial models, including discounted cash flow analyses, less estimated costs to sell each asset. The resulting impairment loss for these assets totaled \$86.1 million.

Included in property and equipment were costs associated with the development of potential facilities. Based on our strategic assessment during the fourth quarter of 2000, we decided to abandon further development of these projects and expense any amounts previously capitalized. The resulting expense totaled \$2.1 million.

During the third quarter of 2000, we determined either not to pursue further development or to reconsider the use of certain parcels of property in California, Maryland and the District of Columbia. Accordingly, we reduced the carrying values of the land to their estimated net realizable value, resulting in an impairment loss totaling \$19.2 million.

***Equity in loss and amortization of deferred gains, net***

For the year ended December 31, 2000, equity in losses and amortization of deferred gains, net, was \$11.6 million. We recognized equity in losses of PMSI and JJFMSI of approximately \$12,000 and \$870,000, respectively through August 31, 2000. In addition, we recognized equity in losses of Operating Company of approximately \$20.6 million. For 2000, the amortization of the deferred gain on the sales of contracts to PMSI and JJFMSI was approximately \$6.5 million and \$3.3 million, respectively. Deferred gains were generated as a result of the sale of certain management contracts to PMSI and JJFMSI. These deferred gains were to be amortized over a five-year period commencing January 1, 1999, which represented the average remaining lives of the contracts sold to PMSI and JJFMSI, plus any contractual renewal options. Effective with the acquisitions of PMSI and JJFMSI, the unamortized balances of the deferred gains on sales of contracts were applied in accordance with the purchase method of accounting.

***Interest expense, net***

Interest expense, net, was reported net of interest income and capitalized interest for the year ended December 31, 2000. Gross interest expense was \$145.0 million for the year ended December 31, 2000. Gross interest expense was based on outstanding convertible subordinated notes payable balances, borrowings under the Old Senior Bank Credit Facility, the Operating Company revolving credit facility, the 12% Senior Notes, and amortization of loan costs and unused facility fees. Interest expense was reported net of capitalized interest on construction in progress of \$8.3 million for the year ended December 31, 2000.

Gross interest income was \$13.5 million for the year ended December 31, 2000. Gross interest income was earned on cash used to collateralize letters of credit for certain construction projects, direct financing leases and investments of cash and cash equivalents.

***Other income***

Other income for the year ended December 31, 2000 totaled \$3.1 million. In September 2000, we received approximately \$4.5 million in final settlement of amounts held in escrow related to the 1998 acquisition of the outstanding capital stock of U.S. Corrections Corporation. The \$3.1 million represented the proceeds, net of miscellaneous receivables, arising from claims against the escrow.

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### *Loss on disposals of assets*

We incurred a loss on sales of assets during 2000 of approximately \$1.7 million. During the fourth quarter of 2000, JJFMSI sold its 50% interest in CCA Australia resulting in a \$3.6 million loss. This loss was offset by a gain of \$0.6 million resulting from the sale of a correctional facility located in Kentucky, a gain of \$1.6 million on the sale of JJFMSI's 50% interest in U.K. Detention Services Limited and a loss of \$0.3 million resulting from the abandonment of a project under development.

### *Unrealized foreign currency transaction loss*

In connection with the construction and development of the Agecroft facility, located in Salford, England, we extended a working capital loan to the operator of the facility. This loan, along with various other short-term receivables, are denominated in British pounds; consequently, we adjust these receivables to the current exchange rate at each balance sheet date, and recognize the currency gain or loss in current period earnings. Due to negative fluctuations in foreign currency exchange rates between the British pound and the U.S. dollar, we recognized net unrealized foreign currency transaction losses of \$8.1 million for the year ended December 31, 2000.

### *Stockholder litigation settlement*

In February 2001, we received court approval of the revised terms of the definitive settlement agreements regarding the settlement of all outstanding stockholder litigation against us and certain of our existing and former directors and executive officers. Pursuant to the terms of the settlement, we agreed to issue to the plaintiffs an aggregate of 4.7 million shares of common stock and a subordinated promissory note in the aggregate principal amount of \$29.0 million.

As of December 31, 2000, we had accrued the estimated obligation of the contingency associated with the stockholder litigation, amounting to approximately \$75.4 million.

### *Income taxes*

In connection with the corporate restructuring in 2000, on September 12, 2000, our stockholders approved an amendment to our charter to remove provisions that required us to elect to qualify and be taxed as a real estate investment trust for federal income tax purposes effective January 1, 2000. As a result of the amendment to our charter, we have been taxed as a taxable subchapter C corporation beginning with our taxable year ended December 31, 2000. In accordance with the provisions of SFAS 109, we were required to establish current and deferred tax assets and liabilities in our financial statements in the period in which a change of tax status occurred. As such, our benefit for income taxes for the year ended December 31, 2000 included the provision associated with establishing the deferred tax assets and liabilities in connection with the change in tax status during the third quarter of 2000, net of a valuation allowance applied to certain deferred tax assets.

## **Liquidity and Capital Resources**

Our principal capital requirements are for working capital, capital expenditures and debt service payments. Capital requirements may also include cash expenditures associated with our outstanding commitments and contingencies, as further described in the notes to our financial statements. In addition, we may incur capital expenditures to expand the design capacity of our facilities in order to retain management contracts, or when the economics of an expansion are compelling. In addition, with lender consent, we may acquire additional correctional facilities that we believe have favorable investment returns and increase value to our stockholders. We have financed, and intend to continue to finance, the working capital and capital expenditure requirements with existing cash balances and net cash provided by operations, although we may also utilize our senior secured credit facility, as further described below. We may also sell non-strategic assets and apply the net proceeds to pay-down our outstanding indebtedness.

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As of December 31, 2002, our liquidity was provided by cash on hand of approximately \$65.4 million and \$58.0 million available under the \$75.0 million revolving portion of our senior secured credit facility. During the year ended December 31, 2002, we generated \$101.4 million in cash through operating activities, and as of December 31, 2002, we had net working capital of \$68.4 million, including an income tax refund receivable of \$32.1 million, which we expect to receive during the second quarter of 2003. We currently expect to be able to meet our cash expenditure requirements for the next year.

During the fourth quarter of 2000, as a result of our financial condition existing at that time, including: (i) the pending maturity of the loans under the Old Senior Bank Credit Facility; (ii) our negative working capital position; and (iii) our highly leveraged capital structure, our new management conducted strategic assessments; developed revised financial projections; evaluated the utilization of existing facilities, projects under development and excess land parcels; identified certain of these non-strategic assets for sale; and identified various potential transactions that could improve our financial position.

During 2001, we were successful in repositioning our capital structure for a comprehensive refinancing of our senior indebtedness, including primarily the Old Senior Bank Credit Facility. We paid-down \$189.0 million in total debt through a combination of \$138.7 million in cash generated from asset sales and internally generated cash. We improved operating margins, increased occupancy rates, and settled a number of significant outstanding legal matters on terms we believe were favorable.

In May 2001, we completed a one-for-ten reverse stock split of our common stock, which satisfied a condition of continued listing of our common stock on the New York Stock Exchange, or NYSE. During December 2001, we completed an amendment and restatement of our Old Senior Bank Credit Facility. As part of the December 2001 amendment and restatement, the existing \$269.4 million revolving portion of the Old Senior Bank Credit Facility, which was to mature on January 1, 2002, was replaced with a term loan of the same amount maturing on December 31, 2002, to coincide with the maturity of the other loans under the Old Senior Bank Credit Facility. Pursuant to terms of the December 2001 amendment and restatement, all loans under the Old Senior Bank Credit Facility accrued interest at a variable rate of 5.5% over LIBOR, or 4.5% over the base rate, at our option.

As a result of the December 2001 amendment and restatement, certain financial and non-financial covenants of the Old Senior Bank Credit Facility were amended, including the removal of prior restrictions on our ability to pay cash dividends on shares of our series A preferred stock. Under the terms of the December 2001 amendment and restatement, we were permitted to pay quarterly dividends, if and when declared by the board of directors, on the shares of series A preferred stock, including all dividends in arrears. On December 13, 2001, our board of directors declared a cash dividend on the shares of series A preferred stock for the fourth quarter of 2001, and for all five quarters then unpaid and in arrears, payable on January 15, 2002 to the holders of record of series A preferred stock on December 31, 2001. As a result of the board's declaration, we paid an aggregate of \$12.9 million to holders of the series A preferred stock in January 2002.

We believed, and continue to believe, that a short-term extension of the revolving portion of our Old Senior Bank Credit Facility was in our best interest for a longer-term financing strategy, particularly due to difficult market conditions for the issuance of debt securities following the terrorist attacks on September 11, 2001, and during the fourth quarter of 2001. Additionally, we believed that certain terms of the December 2001 amendment and restatement, including primarily the removal of prior restrictions to pay cash dividends on our shares of series A preferred stock, including all dividends in arrears, would result in an improvement to our credit ratings, thereby enhancing the terms of a more comprehensive refinancing.

After completing the amendment and restatement of the Old Senior Bank Credit Facility in December 2001, Moody's Investors Service upgraded the rating on our senior secured debt to B2 from B3, our senior unsecured debt to B3 from Caa1, and our preferred stock to Caa2 from Ca.

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On May 3, 2002, we completed a comprehensive refinancing of our senior indebtedness through the refinancing of our Old Senior Bank Credit Facility and the sale and issuance of \$250.0 million aggregate principal amount of 9.875% notes. The proceeds from the sale of the 9.875% notes were used to repay a portion of amounts outstanding under the Old Senior Bank Credit Facility, to redeem approximately \$89.2 million of our existing \$100.0 million 12% Senior Notes, referred to herein as the 12% Senior Notes, pursuant to a tender offer and consent solicitation, and to pay related fees and expenses. Upon the completion of the refinancing, Moody's Investors Service upgraded its rating of our senior secured debt to B1 from B2, our senior unsecured debt to B2 from B3, and our preferred stock to Caa1 from Caa2, and Standard & Poor's upgraded our corporate credit rating and its rating of our senior secured debt to B+ from B and our senior unsecured debt to B- from CCC+.

Interest on the 9.875% notes accrues at the stated rate, and is payable semi-annually in arrears on May 1 and November 1 of each year. The 9.875% notes mature on May 1, 2009. At any time before May 1, 2005, we may redeem up to 35% of the notes with the net proceeds of certain equity offerings, as long as 65% of the aggregate principal amount of the notes remains outstanding after the redemption. We may redeem all or a portion of the 9.875% notes on or after May 1, 2006. Redemption prices are set forth in the indenture governing the 9.875% notes. The 9.875% notes are guaranteed on an unsecured basis by all of our domestic subsidiaries (other than our Puerto Rican subsidiary).

The indenture governing the 9.875% notes contains certain customary covenants that, subject to certain exceptions and qualifications, restrict our ability to, among other things: make restricted payments; incur additional debt or issue certain types of preferred stock; create or permit to exist certain liens; consolidate, merge or transfer all or substantially all of our assets; and enter into transactions with affiliates. In addition, if we sell certain assets (and generally do not use the proceeds of such sales for certain specified purposes) or experience specific kinds of changes in control, we must offer to repurchase all or a portion of the 9.875% notes. The offer price for the 9.875% notes in connection with an asset sale would be equal to 100% of the aggregate principal amount of the notes repurchased plus accrued and unpaid interest and liquidated damages, if any, on the notes repurchased to the date of purchase. The offer price for the 9.875% notes in connection with a change in control would be 101% of the aggregate principal amount of the notes repurchased plus accrued and unpaid interest and liquidated damages, if any, on the notes repurchased to the date of purchase. The 9.875% notes are also subject to certain cross-default provisions with the terms of our other indebtedness.

As part of the refinancing, we obtained a new \$715.0 million senior secured credit facility, referred to herein as the senior secured credit facility, which replaced the Old Senior Bank Credit Facility. Lehman Commercial Paper Inc. serves as administrative agent under the new facility, which is comprised of a \$75.0 million revolving loan with a term of approximately four years, referred to herein as the Revolving Loan, a \$75.0 million term loan with a term of approximately four years, referred to herein as the Term Loan A Facility, and a \$565.0 million term loan with a term of approximately six years, referred to herein as the Term Loan B Facility. All borrowings under the senior secured credit facility initially bear interest at a base rate plus 2.5%, or LIBOR plus 3.5%, at our option. The applicable margin for the Revolving Loan and the Term Loan A Facility is subject to adjustment based on our leverage ratio. We are also required to pay a commitment fee on the difference between committed amounts and amounts actually utilized under the Revolving Loan equal to 0.50% per year subject to adjustment based on our leverage ratio.

The Term Loan A Facility is repayable in quarterly installments, which commenced on June 30, 2002, in an aggregate principal amount for each year as follows: \$15.0 million in year one, \$18.0 million in year two, \$21.0 million in year three, and \$21.0 million in year four. The Term Loan B Facility is repayable in nominal quarterly installments of approximately \$1.4 million, which commenced on June 30, 2002, for the first five years and in substantial quarterly installments during the final year.

On January 17, 2003, after obtaining consent of the lenders under the senior secured credit facility, we purchased the Crowley County Correctional Facility, a 1,200-bed medium security adult male prison facility located in Olney Springs, Colorado, for a purchase price of approximately \$47.5 million. We

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financed the purchase price through \$30.0 million in borrowings under the senior secured credit facility pursuant to an expansion of the Term Loan B Facility, with the balance of the purchase price satisfied with cash on hand. As a result of the expansion of the Term Loan B Facility, the quarterly principal installments required under its terms were increased by \$75,000, with the remaining balance due in the final year.

Prepayments of loans outstanding under the senior secured credit facility are permitted at any time without premium or penalty, upon the giving of proper notice. In addition, we are required to prepay amounts outstanding under the senior secured credit facility in an amount equal to: (i) 50% of the net cash proceeds from any sale or issuance of our equity securities or any equity securities of our subsidiaries, subject to certain exceptions; (ii) 100% of the net cash proceeds from any incurrence of additional indebtedness (excluding certain permitted debt), subject to certain exceptions; (iii) 100% of the net cash proceeds from any sale or other disposition by us, or any of our subsidiaries, of any assets, subject to certain exclusions and reinvestment provisions and excluding certain dispositions in the ordinary course of business; and (iv) 50% of our excess cash flow (as such term is defined in the senior secured credit facility) for each fiscal year.

The credit agreement governing the senior secured credit facility requires us to meet certain financial covenants, including, without limitation, a minimum fixed charge coverage ratio, a maximum leverage ratio and a minimum interest coverage ratio. In addition, the senior secured credit facility contains certain covenants which, among other things, limit the incurrence of additional indebtedness, investments, payment of dividends, transactions with affiliates, asset sales, acquisitions, capital expenditures, mergers and consolidations, prepayments and modifications of other indebtedness, liens and encumbrances and other matters customarily restricted in such agreements. In addition, the senior secured credit facility contains cross-default provisions with our other indebtedness.

The loans and other obligations under the senior secured credit facility are guaranteed by each of our domestic subsidiaries. Our obligations under the senior secured credit facility and the guarantees are secured by: (i) a perfected first priority security interest in substantially all of our tangible and intangible assets and substantially all of the tangible and intangible assets of our subsidiaries; and (ii) a pledge of all of the capital stock of our domestic subsidiaries and 65% of the capital stock of certain of our foreign subsidiaries.

Pursuant to the terms of the aforementioned tender offer and consent solicitation which expired on May 16, 2002, in connection with the refinancing, in May 2002, we redeemed approximately \$89.2 million in aggregate principal amount of our 12% Senior Notes with proceeds from the issuance of the 9.875% notes. The notes were redeemed at a price of 110% of par, which included a 3% consent payment, plus accrued and unpaid interest to the payment date. In connection with the tender offer and consent solicitation, we received sufficient consents and amended the indenture governing the 12% Senior Notes to delete substantially all of the restrictive covenants and events of default contained therein.

We are required to pay interest and principal upon maturity on the remaining 12% Senior Notes outstanding, in accordance with the original terms of such notes.

In connection with the refinancing, we also terminated an interest rate swap agreement at a price of approximately \$8.8 million. The swap agreement, which fixed LIBOR at 6.51% on outstanding balances of \$325.0 million through its expiration on December 31, 2002, had been entered into in order to satisfy a requirement of the Old Senior Bank Credit Facility. In addition, in order to satisfy a requirement of the senior secured credit facility, we purchased an interest rate cap agreement, capping LIBOR at 5.0% on outstanding balances of \$200.0 million through the expiration of the cap agreement on May 20, 2004, for a price of \$1.0 million. The termination of the swap agreement and the purchase of the cap agreement were funded with cash on hand.

As a result of the early extinguishment of the Old Senior Bank Credit Facility and the redemption of substantially all of our 12% Senior Notes, we recorded an extraordinary loss of approximately \$36.7 million during the second quarter of 2002, which included the write-off of existing deferred loan costs, certain

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bank fees paid, premiums paid to redeem the 12% Senior Notes, and certain other costs associated with the refinancing.

***Operating Activities***

Our net cash provided by operating activities for the year ended December 31, 2002, was \$101.4 million, compared with \$92.8 million for the same period in the prior year. (As further discussed under *Results of Operations*, we do not believe the cash flows for the year ended December 31, 2000, are comparable to the cash flows for the years ended December 31, 2001 or 2002.) Cash provided by operating activities represents the year to date net income or loss plus depreciation and amortization, changes in various components of working capital, adjustments for various non-cash charges, including primarily the cumulative effect of accounting change in 2002 and the change in fair value of the interest rate swap agreement, and the extraordinary charge related to the comprehensive refinancing completed on May 3, 2002. Income tax refunds of \$30.6 million during the first quarter of 2001 and \$32.2 million during the second quarter of 2002 contributed to the cash generated from operating activities in both years. As previously described herein, we also expect to receive an additional income tax refund of approximately \$32.1 million during the second quarter of 2003. The increase in cash provided by operating activities was also due to a significant reduction in interest, primarily resulting from the pay-down of debt balances, the successful refinancing completed in May 2002, and due to lower market interest rates. These increases in cash provided by operating activities were partially offset by the payment of \$52.2 million during the fourth quarter of 2002 in full satisfaction of the aforementioned settlement with the IRS with respect to our predecessor's 1997 federal income tax return.

***Investing Activities***

Our cash flow used in investing activities was \$9.7 million for the year ended December 31, 2002, and was primarily attributable to capital expenditures during the period of \$17.1 million, net of proceeds received from the sale of our interest in a juvenile facility located in Dallas, Texas, on June 28, 2002, for \$4.3 million. Capital expenditures during 2002 included \$4.8 million for development and redevelopment activities, including primarily expenditures for our McRae Correctional Facility to meet specifications required by the BOP in connection with a new contract award, and \$12.3 million for maintenance capital expenditures incurred for the betterment, renewal or significant repairs that extended the useful life of our correctional facilities, or for new furniture, fixtures and equipment. In addition, we received refunds of restricted cash totaling approximately \$5.2 million primarily used as collateral for workers' compensation claims. We elected to post letters of credit from the sub-facility under the revolving portion of our senior secured credit facility to replace the cash collateral on such claims. Our cash flow provided by investing activities was \$130.9 million for the year ended December 31, 2001, and was primarily attributable to the proceeds received from the sales of our Mountain View Correctional Facility, located in Spruce Pine, North Carolina, on March 16, 2001, our Agecroft facility, located in Salford, England, on April 10, 2001, our Pamlico Correctional Facility, located in Bayboro, North Carolina, on June 28, 2001, and our Southern Nevada Women's Correctional Center, located in Las Vegas, Nevada, on October 3, 2001.

***Financing Activities***

Our cash flow used in financing activities was \$72.6 million for the year ended December 31, 2002, compared with \$198.3 million for the same period in the prior year. Proceeds from the issuance on May 3, 2002 of the 9.875% notes and the senior secured credit facility were largely offset by the repayment of the Old Senior Bank Credit Facility and the redemption of substantially all of the 12% Senior Notes. However, we also paid debt issuance costs of \$37.5 million in connection with this comprehensive refinancing, and an additional \$8.8 million to terminate the interest rate swap agreement. Further, during the first quarter of 2002, we paid cash dividends of \$12.9 million on our series A preferred stock for the fourth quarter of 2001 and for all five quarters then in arrears, as permitted under the terms of an amendment to our Old Senior Bank Credit Facility obtained in December 2001. Additionally, we paid \$2.2 million in cash dividends on our series A preferred stock during each of the second, third and fourth



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quarters of 2002. Net payments on debt during 2001 totaled \$189.0 million and primarily consisted of the net cash proceeds received from the sale of the Mountain View Correctional Facility, the Agcroft facility, the Pamlico Correctional Facility, and the Southern Nevada Women's Correctional Center that were immediately applied to amounts outstanding under the Old Senior Bank Credit Facility. Net payments on debt also included a lump sum payment of \$35.0 million on the Old Senior Bank Credit Facility with cash on hand.

**Contractual Obligations**

The following schedule summarizes our contractual cash obligations by the indicated period as of December 31, 2002 (in thousands):

	Payments Due By Year Ended December 31,						Total
	2003	2004	2005	2006	2007	Thereafter	
Long-term debt	\$23,054	\$26,068	\$56,834	\$21,841	\$377,138	\$451,024	\$955,959
Contingent interest	17,064					16,726	33,790
Operating leases	1,260	638	91				1,989
Total Contractual Cash Obligations	\$41,378	\$26,706	\$56,925	\$21,841	\$377,138	\$467,750	\$991,738

As the result of a default during 2000 under the terms of our \$40.0 million 10% convertible subordinated notes, we are required to pay the holders of the notes contingent interest sufficient to permit the holders to receive a 15.5% rate of return on such notes, retroactive to the date of issuance of the notes. The contingent interest is payable upon each of December 31, 2003 and upon repayment of the notes, unless the holders of the notes elect to convert the notes into common stock under the terms of the note purchase agreement or unless the price of our common stock meets or exceeds a target price as defined in the note purchase agreement. As contemplated hereby, the holders of the \$40.0 million 10% convertible subordinated notes will convert the notes into 3,362,899 shares of common stock which will be purchased by us. See The Transactions Purchase of Shares of Common Stock Issuable Upon Conversion of the MDP Notes.

We had \$17.3 million of letters of credit outstanding at December 31, 2002 primarily to support our requirement to repay fees under our workers' compensation plan in the event we do not repay the fees due in accordance with the terms of the plan. The letters of credit are renewable annually. The Company did not have any draws under any outstanding letters of credit during 2002, 2001 or 2000.

**Recent Accounting Pronouncements**

Effective January 1, 2002, we adopted SFAS 142, which establishes new accounting and reporting requirements for goodwill and other intangible assets. Under SFAS 142, all goodwill amortization ceased effective January 1, 2002 and goodwill attributable to each of our reporting units was tested for impairment by comparing the fair value of each reporting unit with its carrying value. Fair value was determined using a collaboration of various common valuation techniques, including market multiples, discounted cash flows, and replacement cost methods. These impairment tests are required to be performed at adoption of SFAS 142 and at least annually thereafter. On an ongoing basis (absent any impairment indicators), we expect to perform our impairment tests during our fourth quarter, in connection with our annual budgeting process.

Based on our initial impairment tests, we recognized an impairment of \$80.3 million to write-off the carrying value of goodwill associated with our locations included in the owned and managed facilities during the first quarter of 2002. This goodwill was established in connection with the acquisition of Operating Company. The remaining goodwill, which is associated with the facilities we manage but do not own, was deemed to be not impaired, and remains recorded on the balance sheet. This remaining goodwill was established in connection with the acquisitions of PMSI and JFMSI. The implied fair value of goodwill of the locations included in the owned and managed reporting segment did not support the

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carrying value of any goodwill, primarily due to the highly leveraged capital structure. No impairment of goodwill allocated to the locations included in the managed-only reporting segment was deemed necessary, primarily because of the relatively minimal capital expenditure requirements, and therefore indebtedness, in connection with obtaining such management contracts. Under SFAS 142, the impairment recognized at adoption of the new rules was reflected as a cumulative effect of accounting change in our statement of operations for the first quarter of 2002. Impairment adjustments recognized after adoption, if any, are required to be recognized as operating expenses.

In August 2001, the Financial Accounting Standards Board, or FASB, issued SFAS 144. SFAS 144 addresses financial accounting and reporting for the impairment or disposal of long-lived assets and supersedes SFAS 121, and the accounting and reporting provisions of Accounting Principles Board Opinion No. 30, Reporting the Results of Operations Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual, and Infrequently Occurring Events and Transactions, or APB 30, for the disposal of a segment of a business (as previously defined in that Opinion). SFAS 144 retains the fundamental provisions of SFAS 121 for recognizing and measuring impairment losses on long-lived assets held for use and long-lived assets to be disposed of by sale, while also resolving significant implementation issues associated with SFAS 121. Unlike SFAS 121, however, an impairment assessment under SFAS 144 will never result in a write-down of goodwill. Rather, goodwill is evaluated for impairment under SFAS 142. SFAS 144 also broadens the scope of defining discontinued operations. The provisions of SFAS 144 are effective for financial statements issued for fiscal years beginning after December 15, 2001, and interim periods within those fiscal years. Under the provisions of SFAS 144, the identification and classification of a facility as held for sale, or the termination of any of our management contracts for a managed-only facility, by expiration or otherwise, would result in the classification of the operating results of such facility, net of taxes, as a discontinued operation, so long as the financial results can be clearly identified, and so long as we do not have any significant continuing involvement in the operations of the component after the disposal or termination transaction. We adopted SFAS 144 on January 1, 2002.

Due to the sale of our interest in a juvenile facility during the second quarter of 2002, as well as the termination of our management contracts during the second quarter of 2002 for the Ponce Young Adult Correctional Facility and the Ponce Adult Correctional Facility and the termination of our management contract during the third quarter of 2002 for the Guayama Correctional Center, in accordance with SFAS 144, the operations of these facilities, net of taxes, have been reported as discontinued operations on our statements of operations for the years ended December 31, 2002 and 2001. The reclassification was not made to the statement of operations for the year ended December 31, 2000, as the discontinued operations are not material in that year, and because the 2000 financial statements are not comparable to the 2001 and 2002 financial statements, as previously discussed under Results of Operations herein.

In April 2002, the FASB issued Statement of Financial Accounting Standards No. 145, Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections, or SFAS 145. SFAS 145 rescinds Statement of Financial Accounting Standards No. 4, Reporting Gains and Losses from Extinguishment of Debt, which required all gains and losses from extinguishment of debt to be aggregated and, if material, classified as an extraordinary item, net of the related income tax effect. As a result, the criteria in APB 30 will now be used to classify those gains and losses. SFAS 145 amends Statement of Financial Accounting Standards No. 13, Accounting for Leases, to require that certain lease modifications that have economic effects similar to sale-leaseback transactions be accounted for in the same manner as sale-leaseback transactions. SFAS 145 also makes technical corrections to existing pronouncements. While those corrections are not substantive in nature, in some instances, they may change accounting practice. The provisions of SFAS 145 are effective for financial statements issued for fiscal years beginning after May 15, 2002, and interim periods within those fiscal years.

During the second quarter of 2002, prior to the required adoption of SFAS 145, we reported an extraordinary charge of approximately \$36.7 million associated with the refinancing of our senior debt in May 2002. Under SFAS 145, any gain or loss on extinguishment of debt that was classified as an extraordinary item in prior periods that does not meet the criteria in APB 30 for classification as an

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extraordinary item shall be reclassified. We plan to adopt SFAS 145 on January 1, 2003. Accordingly, in financial reporting periods after adoption, the extraordinary charge reported in the second quarter of 2002 will be reclassified.

In June 2002, the FASB issued Statement of Financial Accounting Standards No. 146, *Accounting for Costs Associated with Exit or Disposal Activities*, or SFAS 146. SFAS 146 addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force Issue No. 94-3, *Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)*, or Issue 94-3. SFAS 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred. Under Issue 94-3, a liability for an exit cost as generally defined in Issue 94-3 was recognized at the date of an entity's commitment to an exit plan. The provisions of SFAS 146 are effective for exit or disposal activities that are initiated after December 31, 2002, with early application encouraged. Adoption of SFAS 146 is not expected to have a material impact on our financial statements.

In November 2002, the FASB issued FASB Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*, or FIN 45. FIN 45 requires that the guarantor recognize, at the inception of certain guarantees, a liability for the fair value of the obligation undertaken in issuing such guarantees. FIN 45 also requires additional disclosure requirements about the guarantor's obligations under certain guarantees that it has issued. The initial recognition and measurement provisions of this interpretation are applicable on a prospective basis to guarantees issued or modified after December 31, 2002 and the disclosure requirements are effective for financial statement periods ending after December 15, 2002. Through December 31, 2002, adoption of FIN 45 has not had a material effect on our financial statements. The future effect of FIN 45 on our financial statements will depend on whether we enter into new, or modify existing, guarantees.

On December 31, 2002, the FASB issued Statement of Financial Accounting Standards No. 148, *Accounting for Stock-Based Compensation Transition and Disclosure*, or SFAS 148. SFAS 148 amends FASB Statement of Financial Accounting Standards No. 123, *Accounting for Stock-Based Compensation*, or SFAS 123, to provide alternative methods of transition to SFAS 123's fair value method of accounting for stock-based employee compensation. SFAS 148 also amends the disclosure provisions of SFAS 123 and Accounting Principles Board, or APB, Opinion No. 28, *Interim Financial Reporting*, to require disclosure in the summary of significant accounting policies of the effects of an entity's accounting policy with respect to stock-based employee compensation on reported net income and earnings per share in annual and interim financial statements. While SFAS 148 does not amend SFAS 123 to require companies to account for employee stock options using the fair value method, the disclosure provisions of SFAS 148 are applicable to all companies with stock-based employee compensation, regardless of whether they account for that compensation using the fair value method of SFAS 123 or the intrinsic value method of APB No. 25, *Accounting for Stock Issued to Employees*.

## **Inflation**

We do not believe that inflation has had or will have a direct adverse effect on our operations. Many of our management contracts include provisions for inflationary indexing, which mitigates an adverse impact of inflation on net income. However, a substantial increase in personnel costs, workers' compensation or food and medical expenses could have an adverse impact on our results of operations in the future to the extent that these expenses increase at a faster pace than the per diem or fixed rates we receive for our management services.

## **Quantitative and Qualitative Disclosures About Market Risk**

Our primary market risk exposures are to changes in U.S. interest rates and fluctuations in foreign currency exchange rates between the U.S. dollar and the British pound. We are exposed to market risk related to our senior secured credit facility and certain other indebtedness. The interest on the senior secured credit facility and such other indebtedness is subject to fluctuations in the market. We were also

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exposed to market risk related to our Old Senior Bank Credit Facility prior to its refinancing in May 2002. If the interest rate for our outstanding indebtedness under the Old Senior Bank Credit Facility and the senior secured credit facility was 100 basis points higher or lower during the years ended December 31, 2002, 2001 and 2000, our interest expense, net of amounts capitalized, would have been increased or decreased by approximately \$5.9 million, \$5.5 million and \$6.0 million, respectively, including the effects of our interest rate swap arrangements discussed below.

As of December 31, 2002, we had outstanding \$250.0 million of senior notes with a fixed interest rate of 9.875%, \$10.8 million of senior notes with a fixed interest rate of 12%, \$40.0 million of convertible subordinated notes with a fixed interest rate of 10%, \$30.0 million of convertible subordinated notes with a fixed interest rate of 8%, \$107.5 million of series A preferred stock with a fixed dividend rate of 8% and \$107.8 million of series B preferred stock with a fixed dividend rate of 12%. Because the interest and dividend rates with respect to these instruments are fixed, a hypothetical 10% increase or decrease in market interest rates would not have a material impact on our financial statements.

The Old Senior Bank Credit Facility required us to hedge \$325.0 million of our floating rate debt. We entered into certain swap arrangements fixing LIBOR at 6.51% (prior to the applicable spread) on outstanding balances of at least \$325.0 million through December 31, 2002. The difference between the floating rate and the swap rate was recognized in interest expense each period. Effective January 1, 2001, the change in the fair value of the swap agreement from period to period was reflected in earnings and was largely due to changing interest rates and the reduction in the remaining life of the swap during the reporting period.

In May 2002, we terminated the interest rate swap agreement at a price of approximately \$8.8 million. In addition, in order to satisfy a requirement of the senior secured credit facility we purchased an interest rate cap agreement, capping LIBOR at 5.0% (prior to the applicable spread) on outstanding balances of \$200.0 million through the expiration of the cap agreement on May 20, 2004, for a price of \$1.0 million.

We may, from time to time, invest our cash in a variety of short-term financial instruments. These instruments generally consist of highly liquid investments with original maturities at the date of purchase between three and twelve months. While these investments are subject to interest rate risk and will decline in value if market interest rates increase, a hypothetical 10% increase or decrease in market interest rates would not materially affect the value of these investments.

Our exposure to foreign currency exchange rate risk relates to our construction, development and leasing of our Agecroft facility located in Salford, England, which was sold in April 2001. We extended a working capital loan to the operator of this facility. Such payments to us are denominated in British pounds rather than the U.S. dollar. As a result, we bear the risk of fluctuations in the relative exchange rate between the British pound and the U.S. dollar. At December 31, 2002, the receivables due us and denominated in British pounds totaled 4.3 million British pounds. A hypothetical 10% increase in the relative exchange rate would have resulted in an increase of \$0.7 million in the value of these receivables and a corresponding unrealized foreign currency transaction gain, and a hypothetical 10% decrease in the relative exchange rate would have resulted in a decrease of \$0.7 million in the value of these receivables and a corresponding unrealized foreign currency transaction loss.

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**BUSINESS**

**General**

We are the nation's largest owner and operator of privatized correctional and detention facilities and one of the largest prison operators in the United States behind only the federal government and four states. We own 41 correctional, detention and juvenile facilities, three of which we lease to other operators, and one additional facility which is not yet in operation. We currently operate 59 facilities including 38 facilities that we own, with a total design capacity of approximately 59,000 beds in 20 states and the District of Columbia.

We specialize in owning, operating and managing prisons and other correctional facilities and providing inmate residential and prisoner transaction services for governmental agencies. In addition to providing the fundamental residential services relating to inmates, our facilities offer a variety of rehabilitation and educational programs, including basic education, religious services, life skills and employment training and substance abuse treatment. These services are intended to help reduce recidivism and to prepare inmates for their successful reentry into society upon their release. We also provide health care (including medical, dental and psychiatric services), food services and work and recreational programs.

**Operations**

***Management and Operation of Facilities***

Our customers consist of local, state and federal correctional and detention authorities. For the year ended December 31, 2002, federal correctional and detention authorities represented approximately 32% of our total revenue. Federal correctional and detention authorities consist of the BOP, the USMS, and the INS. Effective March 1, 2003, the INS was integrated with the Department of Homeland Security, and is now known as the Bureau of Immigration and Customs Enforcement.

Our management services contracts typically have terms of one to five years, and contain multiple renewal options. Most of our facility contracts also contain clauses that allow the government agency to terminate the contract at any time without cause, and our contracts are generally subject to annual or bi-annual legislative appropriation of funds.

We are compensated for operating and managing facilities at an inmate per diem rate based upon actual or minimum guaranteed occupancy levels. Occupancy rates for a particular facility are typically low when first opened or when expansions are first available. However, beyond the start-up period, which typically ranges from 90 to 180 days, the occupancy rate tends to stabilize. For 2002 and 2001, the average compensated occupancy, based on rated capacity, of our facilities was 89.6% and 88.4% respectively, for all of the facilities we owned or managed exclusively of those discontinued. From a capacity perspective, we currently have two facilities that are substantially vacant and provide us with approximately 3,000 available beds. These beds can be brought on-line with only minimal capital outlays.

Our contracts generally require us to operate each facility in accordance with all applicable laws and regulations. We are required by our contracts to maintain certain levels of insurance coverage for general liability, workers' compensation, vehicle liability and property loss or damage. We are also required to indemnify the contracting agencies for claims and costs arising out of our operations and, in certain cases, to maintain performance bonds and other collateral requirements. Approximately 80% of the facilities we operate are accredited by the American Correctional Association Commission on Accreditation. The American Correctional Association, or the ACA, is an independent organization comprised of professionals in the corrections industry that establish standards by which a correctional institution may gain accreditation.

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### ***Operating Procedures***

Pursuant to the terms of our management contracts, we are responsible for the overall operation of our facilities, including staff recruitment, general administration of the facilities, facility maintenance, security and supervision of the offenders. We also provide a variety of rehabilitative and educational programs at our facilities. Inmates at most facilities we manage may receive basic education through academic programs designed to improve inmate literacy levels and the opportunity to acquire General Education Development, or GED, certificates. We also offer vocational training to inmates who lack marketable job skills. In addition, we offer life skills transition planning programs that provide inmates with job search skills, health education, financial responsibility training, parenting and other skills associated with becoming productive citizens. At several of our facilities, we also offer counseling, education and/or treatment to inmates with alcohol and drug abuse problems through our LifeLine<sup>SM</sup> program. We believe these programs reduce recidivism.

We operate each facility in accordance with company-wide policies and procedures and the standards and guidelines established by the ACA. The ACA believes its standards safeguard the life, health and safety of offenders and personnel and, accordingly, these standards are the basis of the accreditation process and define policies and procedures for operating programs. The ACA standards, which are the industry's most widely accepted correctional standards, describe specific objectives to be accomplished and cover such areas as administration, personnel and staff training, security, medical and health care, food services, inmate supervision and physical plant requirements. We have sought and received ACA accreditation for 47 of the facilities we currently manage, and we intend to apply for ACA accreditation for all of our eligible facilities. The accreditation process is usually completed 18 to 24 months after a facility is opened.

We devote considerable resources to monitoring compliance with contractual and other requirements and to maintain a high level of quality assurance at each facility through a system of formal reporting, corporate oversight, site reviews and inspection by on-site facility administrators.

Under our management contracts, we usually provide the contracting government agency with the services, personnel and material necessary for the operation, maintenance and security of the facility and the custody of inmates. We offer full logistical support to the facilities we manage, including security, health care services, transportation, building and ground maintenance, education, treatment and counseling services and food services.

Our operations department, in conjunction with our legal department, supervises compliance of each facility with operational standards contained in the various management contracts as well as those of professional and government agencies. These responsibilities include developing specific policies and procedures manuals, monitoring all management contracts, ensuring compliance with applicable labor and affirmative action standards, training and administration of personnel, purchasing supplies and developing educational, vocational, counseling and life skills inmate programs. We provide meals for inmates at the facilities we operate in accordance with regulatory, client and nutritional requirements. These catering responsibilities include hiring and training staff, monitoring food operations, purchasing food and supplies, and maintaining equipment, as well as adhering to all applicable safety and nutritional standards and codes.

### **Facility Portfolio**

#### ***General***

Our facilities can generally be classified according to the level(s) of security at such facility. Minimum-security facilities are facilities having open housing within an appropriately designed and patrolled institutional perimeter. Medium-security facilities are facilities having either cells, rooms or dormitories, a secure perimeter and some form of external patrol. Maximum-security facilities are facilities having single occupancy cells, a secure perimeter and external patrol. Multi-security facilities are facilities with various areas encompassing either minimum, medium or maximum security. Non-secure facilities are

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juvenile facilities having open housing that inhibit movement by their design. Secure facilities are juvenile facilities having cells, rooms, or dormitories, a secure perimeter and some form of external patrol.

Our facilities can also be classified according to their primary function. The primary functional categories are:

*Correctional Facilities.* Correctional facilities house and provide contractually agreed upon programs and services to sentenced adult prisoners, typically prisoners on whom a sentence in excess of one year has been imposed.

*Detention Facilities.* Detention facilities house and provide contractually agreed upon programs and services to prisoners being detained by the INS, prisoners who are awaiting trial who have been charged with violations of federal criminal law who are in the custody of the USMS or state criminal law, and prisoners who have been convicted of crimes and on whom a sentence of one year or less has been imposed.

*Juvenile Facilities.* Juvenile facilities house and provide contractually agreed upon programs and services to juveniles, typically defined by applicable federal or state law as being persons below the age of 18, who have been determined to be delinquents by a juvenile court and who have been committed for an indeterminate period of time but who typically remain confined for a period of six months or less.

*Leased Facilities.* Leased facilities are facilities that are within one of the above categories and that we own but do not manage.

***Facilities and Facility Management Contracts***

We own 41 correctional, detention and juvenile facilities in 14 states and the District of Columbia, three of which we lease to other operators, and one additional facility which is not yet in operation. We also own two corporate office buildings. We have pledged each of the properties we own to secure borrowings under our senior secured credit facility. We lease one of these facilities to a government agency and two of these facilities to private operators. Additionally, we currently manage 21 correctional and detention facilities owned by government agencies. The following table sets forth all of the facilities which we currently (i) own and manage, (ii) own, but are leased to another operator, and (iii) manage but are owned by a government authority. The table includes certain information regarding each facility, including the term of the primary management contract related to such facility, or, in the case of facilities we own but lease to another operator, the term of such lease. We have a number of management contracts and leases that expire in 2003 (or have expired) with no remaining renewal options. We continue to operate, and expect to continue to manage or lease these facilities, although we can provide no assurance that we will maintain our contracts to manage or lease these facilities.

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Facility Name	Primary Customer	Design Capacity (A)	Security Level	Facility Type(B)	Term	Remaining Renewal Options (C)
<b>Owned and Managed Facilities:</b>						
Central Arizona Detention Center Florence, Arizona	USMS	2,304	Multi	Detention	May 2003	
Eloy Detention Center Eloy, Arizona	BOP, INS	1,500	Medium	Detention	February 2004	(5) 1 year
Florence Correctional Center Florence, Arizona	State of Alaska	1,600	Medium	Correctional	June 2003	
California Correctional Center California City, California	BOP	2,304	Medium	Correctional	September 2003	(7) 1 year
San Diego Correctional Facility(D) San Diego, California	INS	1,232	Minimum/ Medium	Detention	December 2003	(1) 1 year
Bent County Correctional Facility Las Animas, Colorado	State of Colorado	700	Medium	Correctional	June 2003	(1) 1 year
Crowley County Correctional Facility Olney Springs, Colorado	State of Colorado	1,200	Medium	Correctional	June 2003	(1) 1 year
Huerfano County Correctional Center(E) Walsenburg, Colorado	State of Colorado	752	Medium	Correctional	June 2003	(1) 1 year
Kit Carson Correctional Center Burlington, Colorado	State of Colorado	768	Medium	Correctional	June 2003	(1) 1 year
Coffee Correctional Facility(F) Nicholls, Georgia	State of Georgia	1,524	Medium	Correctional	June 2003	(16) 1 year
McRae Correctional Facility McRae, Georgia	BOP	1,524	Minimum	Correctional	December 2005	(7) 1 year
Wheeler Correctional Facility(F) Alamo, Georgia	State of Georgia	1,524	Medium	Correctional	June 2003	(16) 1 year
Leavenworth Detention Center Leavenworth, Kansas	USMS	483	Maximum	Detention	December 2003	
Lee Adjustment Center Beattyville, Kentucky	Commonwealth of Kentucky	748	Minimum/ Medium	Correctional	May 2003	(3) 2 year
Marion Adjustment Center St. Mary, Kentucky	Commonwealth of Kentucky	790	Minimum	Correctional	December 2003	
Otter Creek Correctional Center Wheelwright, Kentucky	State of Indiana	656	Minimum/ Medium	Correctional	January 2003	
Prairie Correctional Facility Appleton, Minnesota	State of Wisconsin	1,338	Medium	Correctional	December 2005	(2) 1 year



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Tallahatchie County Correctional Facility(G) Tutweiler, Mississippi	Tallahatchie County, Mississippi	1,104	Medium	Correctional	May 2003	3 year indefinite
Crossroads Correctional Center(H) Shelby, Montana	State of Montana	512	Multi	Correctional	August 2003	(8) 2 year
Cibola County Corrections Center Milan, New Mexico	BOP	1,072	Medium	Correctional	September 2003	(7) 1 year
New Mexico Women's Correctional Facility Grants, New Mexico	State of New Mexico	596	Multi	Correctional	June 2003	(2) 1 year
Torrance County Detention Facility Estancia, New Mexico	USMS	910	Multi	Detention	Indefinite	
Northeast Ohio Correctional Center(I) Youngstown, Ohio		2,016	Medium	Correctional		
Cimarron Correctional Facility(J) Cushing, Oklahoma	State of Oklahoma	960	Medium	Correctional	June 2003	
Davis Correctional Facility(J) Holdenville, Oklahoma	State of Oklahoma	960	Medium	Correctional	June 2003	
Diamondback Correctional Facility Watonga, Oklahoma	State of Oklahoma	2,160	Medium	Correctional	June 2003	
North Fork Correctional Facility Sayre, Oklahoma	State of Wisconsin	1,440	Medium	Correctional	December 2005	(2) 1 year
West Tennessee Detention Facility Mason, Tennessee	USMS	600	Multi	Detention	February 2004	(3) 1 year
Shelby Training Center(K) Memphis, Tennessee	Shelby County, Tennessee	200	Secure	Juvenile	April 2015	

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Facility Name	Primary Customer	Design Capacity (A)	Security Level	Facility Type(B)	Term	Remaining Renewal Options (C)
Whiteville Correctional Facility(L) Whiteville, Tennessee	State of Wisconsin	1,536	Medium	Correctional	December 2005	(2) 1 year
Bridgeport Pre-Parole Transfer Facility Bridgeport, Texas	State of Texas	200	Medium	Correctional	August 2003	
Eden Detention Center Eden, Texas	BOP	1,225	Medium	Correctional	April 2004	
Houston Processing Center Houston, Texas	INS	411	Medium	Detention	September 2003	
Laredo Processing Center Laredo, Texas	INS	258	Minimum/ Medium	Detention	March 2004	(2) 3 month
Webb County Detention Center Laredo, Texas	USMS	480	Medium	Detention	August 2003	
Mineral Wells Pre-Parole Transfer Facility Mineral Wells, Texas	State of Texas	2,103	Minimum	Correctional	August 2003	
T. Don Hutto Correctional Center Taylor, Texas	Williamson County, Texas	480	Medium	Correctional	May 2003	(1) 2 year
D.C. Correctional Treatment Facility(M) Washington, D.C	District of Columbia	866	Medium	Detention	March 2017	
<b>Managed Only Facilities:</b>						
Bay Correctional Facility Panama City, Florida	State of Florida	750	Medium	Correctional	June 2003	(1) 2 year
Bay County Jail and Annex Panama City, Florida	Bay County, Florida	677	Multi	Detention	September 2006	
Citrus County Detention Facility Lecanto, Florida	Citrus County, Florida	400	Multi	Detention	September 2005	(1) 5 year
Gadsden Correctional Institution Quincy, Florida	State of Florida	896	Minimum/ Medium	Correctional	June 2003	
Hernando County Jail Brooksville, Florida	Hernando County, Florida	302	Multi	Detention	October 2010	
Lake City Correctional Facility Lake City, Florida	State of Florida	350	Secure	Correctional	June 2003	(1) 2 year
Idaho Correctional Center Boise, Idaho	State of Idaho	1,270	Minimum/ Medium	Correctional	June 2005	
		670	Multi	Detention	November 2004	

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Marion County Jail Indianapolis, Indiana	Marion County, Indiana					
Winn Correctional Center Winnfield, Louisiana	State of Louisiana	1,538	Medium/ Maximum	Correctional	June 2003	(1) 2 year
Wilkinson County Correctional Facility Woodville, Mississippi	State of Mississippi	1,000	Medium	Correctional	January 2004	(1) 2 year
Southern Nevada Women s Correctional Center Las Vegas, Nevada	State of Nevada	500	Multi	Correctional	October 2004	3 year indefinite
Elizabeth Detention Center Elizabeth, New Jersey	INS	300	Minimum	Detention	January 2004	(1) 1 year
David L. Moss Criminal Justice Center Tulsa, Oklahoma	Tulsa County, Oklahoma	1,440	Multi	Detention	June 2005	(2) 1 year
Silverdale Facilities Chattanooga, Tennessee	Hamilton County, Tennessee	576	Multi	Detention	September 2004	(3) 4 year
South Central Correctional Center Clifton, Tennessee	State of Tennessee	1,506	Medium	Correctional	June 2005	(1) 2 year
Tall Trees Memphis, Tennessee	State of Tennessee	63	Non- secure	Juvenile	June 2003	
Metro-Davidson County Detention Facility Nashville, Tennessee	Davidson County, Tennessee	1,092	Multi	Detention	June 2003	
Hardeman County Correctional Facility Whiteville, Tennessee	State of Tennessee	2,016	Medium	Correctional	July 2005	(1) 2 year
Bartlett State Jail Bartlett, Texas	State of Texas	962	Minimum/ Medium	Correctional	August 2003	

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Facility Name	Primary Customer	Design Capacity (A)	Security Level	Facility Type(B)	Term	Remaining Renewal Options (C)
Liberty County Jail/ Juvenile Center Liberty, Texas	USMS	380	Multi	Detention	January 2005	(2) 1 year
Sanders Estes Unit Venus, Texas	State of Texas	1,000	Minimum/ Medium	Correctional	August 2003	
<b>Leased Facilities:</b>						
Leo Chesney Correctional Center Live Oak, California	Cornell Corrections	240	Minimum	Owned/ Leased	June 2003	
Queensgate Correctional Facility Cincinnati, Ohio	Hamilton County, Ohio	850	Medium	Owned/ Leased	February 2004	(3) 1 year
Community Education Partners(N) Houston, Texas	Community Education Partners		Non- secure	Owned/ Leased	June 2008	(3) 5 year

- (A) Design capacity measures the number of beds, and accordingly, the number of inmates each facility is designed to accommodate. Facilities housing detainees on a short term basis may exceed the original intended design capacity for sentenced inmates due to the lower level of services required by detainees in custody for a brief period. We believe design capacity is an appropriate measure for evaluating prison operations, because the revenue generated by each facility is based on a per diem or monthly rate per inmate housed at the facility paid by the corresponding contracting governmental entity.
- (B) We manage numerous facilities that have more than a single function (e.g., housing both long-term sentenced adult prisoners and pre-trial detainees). The primary functional categories into which facility types are identified was determined by the relative size of prisoner populations in a particular facility on December 31, 2002. If, for example, a 1,000-bed facility housed 900 adult prisoners with sentences in excess of one year and 100 pre-trial detainees, the primary functional category to which it would be assigned would be that of correctional facilities and not detention facilities. It should be understood that the primary functional category to which multi-user facilities are assigned may change from time to time.
- (C) Remaining renewal options represents the number of renewal options, if applicable, and the remaining term of each option renewal.
- (D) The facility is subject to a ground lease with the County of San Diego whereby the initial lease term is 18 years from the commencement of the contract, as defined. The County has the right to buy out all, or designated portions of, the premises at various times prior to the expiration of the term at a price generally equal to the cost of the premises, or the designated portion of the premises, less an allowance for amortization over a 20-year period. Upon expiration of the lease, ownership of the facility automatically reverts to the County of San Diego.
- (E) The facility is subject to a purchase option held by Huerfano County which grants Huerfano County the right to purchase the facility upon an early termination of the contract at a price generally equal to the cost of the facility plus 80% of the percentage increase in the Consumer Price Index, cumulated annually.
- (F) The facility is subject to a purchase option held by the Georgia Department of Corrections, or GDOC, which grants the GDOC the right to purchase the facility for the lesser of the facility's depreciated book value or fair market value at any time during the term of the contract between us and the GDOC.
- (G) The facility is subject to a purchase option held by the Tallahatchie County Correctional Authority which grants Tallahatchie County Correctional Authority the right to purchase the facility at any time during the contract at a price generally equal to the cost of the premises less an allowance for amortization over a 20-year period. This facility is substantially vacant.



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- (H) The State of Montana has an option to purchase the facility at fair market value generally at any time during the term of the contract with us.
- (I) All inmates were transferred out of this facility during 2001 due to a new law that mandated that the BOP assume jurisdiction of all District of Columbia offenders under the custody of the BOP by the end of 2001.
- (J) The facility is subject to a purchase option held by the Oklahoma Department of Corrections, or ODC, which grants the ODC the right to purchase the facility at its fair market value at any time.
- (K) Upon the conclusion of the thirty-year lease with Shelby County, Tennessee, the facility will become the property of Shelby County. Prior to such time, if the County terminates the lease without cause, breaches the lease or the State fails to fund the contract, we may purchase the property for \$150,000. If we terminate the lease without cause, or breach the contract, we will be required to purchase the property for its fair market value as agreed to by the County and us.
- (L) The State of Tennessee has the option to purchase the facility in the event of our bankruptcy, or upon an operational breach, as defined, at a price equal to the book value of the facility, as defined.
- (M) The District of Columbia has the right to purchase the facility at any time during the term of the contract at a price generally equal to the present value of the remaining lease payments for the premises. Upon expiration of the lease, ownership of the facility automatically reverts to the District of Columbia.
- (N) The alternative educational facility is currently configured to accommodate 900 at-risk juveniles and may be expanded to accommodate a total of 1,400 at-risk juveniles.

***Facility under Construction or Development***

In addition to owning and/or managing the facilities listed in the preceding table, we own the Stewart County Detention Center located in Stewart County, Georgia. The 297,550 square foot medium security facility will have a design capacity of 1,524 beds and is partially complete. We estimate that the facility could be completed with approximately \$20.0 million of capital expenditures. At this time, there are no plans to complete this project.

**Business Development**

***General***

We are currently the nation's largest provider of outsourced correctional management services. We manage approximately 50% of all beds under contract with private operators of correctional and detention facilities in the United States.

Under the direction of our business development department and our senior management and with the aid, where appropriate, of certain independent consultants, we market our services to government agencies responsible for federal, state and local correctional facilities in the United States. Recently, the industry has experienced greater opportunities at the federal level, as needs are increasing within the BOP, the USMS and the INS. The BOP and USMS were our only customers that accounted for 10.0% or more of our total revenue in 2002, generating 14% and 11%, respectively, of total revenue in 2002 and 13% and 9%, respectively in 2001. Contracts at the federal level generally offer more favorable contract terms. For example, many federal contracts contain take-or-pay clauses that guarantee us a certain percentage of management revenue, regardless of occupancy levels.

We believe that we can further develop our business by, among other things:

maintaining our existing customer relationships and continuing to fill existing beds within our facilities;

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enhancing the terms of our existing contracts; and

establishing relationships with new customers who have either previously not outsourced their correctional management needs or have utilized other private enterprises.

We generally receive inquiries from or on behalf of government agencies that are considering outsourcing the management of certain facilities or that have already decided to contract with private enterprise. When we receive such an inquiry, we determine whether there is an existing need for our services and whether the legal and political climate in which the inquiring party operates is conducive to serious consideration of outsourcing. Based on the findings, an initial cost analysis is conducted to further determine project feasibility.

We pursue our business opportunities primarily through RFPs, and Request for Qualifications, or RFQs. RFPs and RFQs are issued by government agencies and are solicited for bid.

Generally, government agencies responsible for correctional and detention services procure goods and services through RFPs and RFQs. Most of our activities in the area of securing new business are in the form of responding to RFPs. As part of our process of responding to RFPs, members of our management team meet with the appropriate personnel from the agency making the request to best determine the agency's needs. If the project fits within our strategy, we submit a written response to the RFP. A typical RFP requires bidders to provide detailed information, including, but not limited to, the service to be provided by the bidder, its experience and qualifications, and the price at which the bidder is willing to provide the services (which services may include the renovation, improvement or expansion of an existing facility or the planning, design and construction of a new facility). Based on the proposals received in response to an RFP, the agency will award a contract to the successful bidder. In addition to issuing formal RFPs, local jurisdictions may issue an RFQ. In the RFQ process, the requesting agency selects a firm believed to be most qualified to provide the requested services and then negotiates the terms of the contract with that firm, including the price at which its services are to be provided.

In January 2003, we announced the hiring of Kenneth A. Bouldin as our chief development officer and an executive vice president. In his capacity as chief development officer, Mr. Bouldin will oversee all business development activities, including oversight of existing federal, state and local government corrections contracts. He will also lead efforts to expand our corrections management services, including our newly formed local customer relations department, which will target expanding business opportunities in the local jail markets, in addition to overseeing our federal customer relations, state customer relations, and marketing and communications departments. Mr. Bouldin's background is further described under Management herein.

## **Competitive Strengths**

We believe that we have and will benefit from the following competitive business and operating strengths:

*We are the largest and most recognized private prison operator.* As the owner of 41 correctional, detention and juvenile facilities and the manager of 59 facilities throughout the United States, we are the largest and the most recognized private prison operator in the United States. We manage approximately 50% of all privately managed prison beds in the United States. We pioneered modern-day private prisons with a list of notable accomplishments, including being the first company to design, build and operate a private prison and the first company to manage a private maximum-security facility under a direct contract with the federal government.

*Available beds within our existing facilities provide us the opportunity to increase cash flow.* We currently have two facilities, our Northeast Ohio Correctional Center and Tallahatchie County Correctional Facility, that are substantially vacant and provide us with approximately 3,000 available beds. We believe, depending on the customers' needs, we can put these beds in operation with modest capital outlays. We also have an additional facility located in Stewart County, Georgia, which is partially complete. This facility could bring approximately 1,500 additional beds on-line with approximately

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\$20.0 million of additional capital expenditures. As an alternative to filling these beds, we would consider selling these facilities. In addition to these three facilities, as of March 1, 2003, we had a total of nine facilities that had 200 or more beds available at each facility, which we believe provides further potential for increased cash flow.

*Our facilities generate revenues from a diverse, high quality customer base.* We provide services under management contracts with a diverse base of state and federal agencies that generally have credit ratings of single-A or better. In addition, we have management contracts with approximately 50 different customers, with only two customers, the BOP and USMS, accounting for more than 10% of our total revenues during 2002. In addition, with average lengths of stay between three and five years, prison occupancy is relatively predictable and stable.

*Proven senior management team.* Beginning in August 2000, we appointed a new senior management team. Our senior management team has accomplished a number of high priority company initiatives, including: (1) completing a restructuring of the company during the fourth quarter of 2000 in which we converted from a real estate investment trust to an operating company; (2) reducing our senior debt by over \$189.0 million during 2001 and refinancing our senior indebtedness during the second quarter of 2002; (3) securing 3,300-bed contracts with the BOP at our California City, California and Cibola County, New Mexico facilities, and the 1,500-bed CAR II contract with the BOP, the three largest contracts in our history; (4) selling four assets for proceeds of \$138.7 million; (5) settling all of our pending stockholder litigation, as well as several other material contingencies, including a dispute with the IRS regarding our predecessor's 1997 federal income tax return; and (6) acquiring a 1,200-bed correctional facility in Olney Springs, Colorado, which expanded our bed capacity in a state with anticipated inmate growth over the next several years.

## **Business Strategy**

Our primary business strategy is to provide quality corrections services, increase occupancy and revenue, control operating costs and continue to reduce our debt, while maintaining our position as the leading owner, operator and manager of privatized correctional and detention facilities. We will also consider opportunities for growth, including potential acquisitions of businesses within our line of business and those that provide complementary services, provided we believe such opportunities will broaden our market and/or increase the services we can provide to our customers.

*We own and operate high quality correctional and detention facilities.* Approximately 80% of our facilities are accredited by the ACA. The quality of our operations is further illustrated by the fact that for the three years ended December 31, 2001, we had an escape ratio at our adult prison facilities that was less than two-thirds of the national average for adult prisons (according to The 2001 Corrections Yearbook published by Criminal Justice Institute). We have experienced wardens managing our facilities, with an average of over 23 years of corrections experience and an average tenure of almost eight years with us.

*We are focused on increasing our occupancy rate.* We are typically compensated based on the number of inmates held in our facilities. We are pursuing a number of initiatives intended to increase occupancy. We are in discussions with the federal government and a number of states, including states that have not previously outsourced their correctional management services, regarding the placement of additional inmates in our facilities. We also are focused on renewing and enhancing the terms of our existing contracts. Given our significant number of available beds, we believe we can increase operating cash flow from increased occupancy without incurring significant capital expenditures. Our primary goal is to obtain contracts to fill our existing inventory of vacant beds.

In addition, with lender consent, we will consider the expansion of existing facilities or the development or purchase of new prison facilities that we believe have favorable investment returns and increase value to our stockholders. In considering the decision to add additional capacity, we consider a number of factors including the targeted customer's inmate populations versus capacity and projections for future inmate growth. Our goal is to have a contract in place prior to commitment for the construction or purchase of additional beds.



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*We intend to maintain effective cost controls.* An important component of our strategy is to position our company as a cost effective, high quality provider of corrections management services. We are focused on improving operating performance and efficiency through the following key operating initiatives: (1) standardizing supply and service purchasing practices and usage; (2) outsourcing the purchase of food products and services nationwide; (3) improving inmate management, resource consumption and reporting procedures through the utilization of numerous technology initiatives; and (4) improving productivity and reducing employee turnover. We intend to continue to implement a wide variety of specialized services that address the unique needs of various segments of the inmate population. Because the facilities we operate differ with respect to security levels, ages, genders and cultures of inmates, we focus on the particular needs of an inmate population and tailor our services based on local conditions and our ability to provide services on a cost-effective basis.

*We intend to continue to improve our capital structure.* In 2001, we reduced indebtedness by \$189.0 million, and in 2002 we were able to reduce our cost of capital by refinancing our senior secured credit facility. The transactions contemplated in this prospectus supplement are intended to continue this effort by significantly reducing the after-tax dividend and interest obligations associated with our outstanding preferred stock and our 10% convertible subordinated notes, respectively. We believe our anticipated capital expenditures and the benefit of our net operating loss carryforwards will allow us to generate free cash flow that will enable us to continue reducing our debt.

### **The Corrections and Detention Industry**

*Growth of the United States Prison Population.* According to the Bureau of Justice Statistics, or the BJS, the United States prison population, along with incarceration rates, has increased since 1925, independent of economic cycles. The number of inmates housed in United States federal and state prisons and local jail facilities increased from 1,148,702 at December 31, 1990 to 2,019,234 at June 30, 2002. The average annual growth rate was 2.8% between June 2001 and June 2002. In this period, the average annual growth rate for the federal inmate population was 5.7%, while the average annual growth rates for state and local inmate populations were 1.0% and 5.4%, respectively.

The average annual growth rate of the prison population in the United States between December 1995 and June 2002 was 3.8%. During this time period federal, state, and local inmate populations increased 8.1%, 3.0% and 4.3%, respectively. Federal agencies are collectively our largest customer and accounted for approximately 33% of our management revenues (when aggregating all of our federal contracts) for the year ended December 31, 2002.

*Prison Overcrowding.* The significant growth of the prison population in the United States has led to overcrowding in the state and federal prison systems. At least 22 states and the federal prison system reported operating at 100% or more of their highest capacity in 2001, with the federal prison system operating at 31% above capacity at December 31, 2001.

Further, we believe the moderation in growth rates for state and local inmate populations represent short-term declines resulting from budget difficulties currently experienced by state and local governments, which have utilized alternative sentencing, such as early release programs, parole and half-way houses, in an attempt to manage their budget constraints. However, we do not believe these temporary decisions represent long-term solutions to the prison overcrowding problem.

*Benefits of Privatization.* The prisoner population housed in privately managed facilities in the United States at the end of June 2002 was 86,626. At June 30, 2002, 12.6% of all federal inmates and 5.2% of all state inmates were held in private facilities. Seven states and the District of Columbia, all of which are our customers, housed at least 20% of their prison population in private facilities as of June 30, 2002. New Mexico (43%), the District of Columbia (27%), Montana (31%), Alaska (29%), Oklahoma (29%), Wyoming (28%), Hawaii (22%) and Idaho (22%).

We believe the outsourcing of prison management services to private operators allows governments to manage increasing inmate populations while simultaneously controlling correctional costs and improving

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correctional services. The use of facilities owned and managed by private operators allows governments to expand prison capacity without incurring large capital commitments required to increase correctional capacity. In addition, contracting with a private operator allows governmental agencies to add beds without making significant capital investment or incurring new debt. We believe these advantages translate into significant cost savings for the government agencies.

*Continued Demand for Our Services.* Despite the slower growth rate of the overall prison population and the state prison population in recent years, we believe that a number of factors will cause this growth rate, and the demand for private prison beds, to increase. As described above, there is a general shortage of available beds in United States correctional and detention facilities, particularly in the federal system. We expect this overcrowding to continue in the future as a result of stricter sentencing guidelines, longer prison sentences and prison terms for juvenile offenders, as well as demographic changes. In addition, state budgeting problems can be expected to result in a curtailment of the construction of new facilities, restricting the public supply of available beds. Industry reports indicate that inmates convicted of violent crimes generally serve approximately one-half of their sentence, with the majority of them being repeat offenders. In addition, the U.S. Census Bureau now projects a steady rise in the number of males between the ages of 18 and 24 years of age. Males between 18 and 24 years of age have demonstrated the highest propensity for criminal behavior and the highest rates of arrest, conviction and incarceration.

As the result of the events of September 11, 2001, the protection and security of the United States has become a priority for the federal government. As a result, we believe that recently proposed initiatives by the federal government in connection with homeland security should cause the demand for prison beds, including privately managed beds, to increase. The final funding levels for the President's fiscal 2003 budget included an increase of \$27.5 million, or 4.1%, for the USMS, and more than \$1.4 billion, or 29.7%, for the INS, two of our largest customers. The President's budget for fiscal year 2004 includes a proposal for \$35 billion for homeland security, excluding the Department of Defense, an increase of \$2.5 billion, or 7.6%. If enacted at these levels, spending would have more than doubled from pre-September 11, 2001 levels. This proposed funding is intended to support the agencies' efforts to prevent illegal entry into the United States and target persons that are a threat to homeland security. We believe that these efforts will likely result in more incarceration and detention, particularly of illegal immigrants, and increased supervision of persons on probation and parole.

## **Government Regulation**

### ***Environmental Matters***

Under various federal, state and local environmental laws, ordinances and regulations, a current or previous owner or operator of real property may be liable for the costs of removal or remediation of hazardous or toxic substances on, under or in such property. Such laws often impose liability whether or not the owner or operator knew of, or was responsible for, the presence of such hazardous or toxic substances. As an owner of correctional and detention facilities, we have been subject to these laws, rules, ordinances and regulations. In addition, we are also subject to these laws, ordinances and regulations as the result of our, and our subsidiaries', operation and management of correctional and detention facilities. The cost of complying with environmental laws could materially adversely affect our financial condition and results of operations.

Phase I environmental assessments have been obtained on substantially all of the facilities we currently own. The purpose of a Phase I environmental assessment is to identify potential environmental contamination that is made apparent from historical reviews of such facilities, review of certain public records, visual investigations of the sites and surrounding properties, toxic substances and underground storage tanks. The Phase I environmental assessment reports do not reveal any environmental contamination that we believe would have a material adverse effect on our business, assets, results of operations or liquidity, nor are we aware of any such liability. Nevertheless, it is possible that these reports do not reveal all environmental liabilities or that there are material environmental liabilities of which we

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are unaware. In addition, environmental conditions on properties we own may affect the operation or expansion of facilities located on the properties.

***Business Regulations***

The industry in which we operate is subject to extensive federal, state and local regulations, including educational, health care and safety regulations, which are administered by many regulatory authorities. Some of the regulations are unique to the corrections industry, and the combination of regulations we face is unique. Facility management contracts typically include reporting requirements, supervision and on-site monitoring by representatives of the contracting governmental agencies. Corrections officers and juvenile care workers are customarily required to meet certain training standards and, in some instances, facility personnel are required to be licensed and subject to background investigation. Certain jurisdictions also require us to award subcontracts on a competitive basis or to subcontract with businesses owned by members of minority groups. Our facilities are also subject to operational and financial audits by the governmental agencies with which we have contracts. We may not always successfully comply with these regulations, and failure to comply can result in material penalties or non-renewal or termination of facility management contracts.

In addition, private prison managers are increasingly subject to government legislation and regulation attempting to restrict the ability of private prison managers to house certain types of inmates. Legislation has been enacted in several states, and has previously been proposed in the United States House of Representatives, containing such restrictions. Although we do not believe that existing legislation will have a material adverse effect on us, there can be no assurance that future legislation would not have such an effect.

***Americans with Disabilities Act***

The correctional and detention facilities we operate and manage are subject to the Americans with Disabilities Act of 1990, as amended. The Americans with Disabilities Act, or the ADA, has separate compliance requirements for public accommodations and commercial facilities but generally requires that public facilities such as correctional and detention facilities be made accessible to people with disabilities. These requirements became effective in 1992. We continue to monitor our facilities for compliance with the ADA in order to conform to its requirements. Compliance with the ADA requirements could require removal of access barriers and other modifications or capital improvements at the facilities. Noncompliance could result in the imposition of fines or an award of damages to private litigants. Although we believe we are in compliance, any additional expenditures incurred in order to comply with the ADA at our facilities, if required, would not have a material adverse effect on our business and operations.

***Health Insurance Portability and Accountability Act of 1996***

In 1996, Congress enacted the Health Insurance Portability and Accountability Act of 1996, or HIPAA. HIPAA is designed to improve the portability and continuity of health insurance coverage and simplify the administration of health insurance. Certain regulations promulgated by HIPAA become effective in April 2003 and require health care providers to institute physical and procedural safeguards to protect the health records of patients and insureds. Examples of mandated safeguards include requirements that notices of the entity's privacy practices be sent and that patients and insureds be given the right to access and request amendments to their records. Authorizations are required before a provider, insurer or clearinghouse can use health information for marketing and certain other purposes. Additionally, health plans are required to electronically transmit and receive standardized healthcare information. These regulations will require the implementation of compliance training and awareness programs for our healthcare service providers associated with healthcare we provide to inmates, and selected other employees primarily associated with our employee medical plans.

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### **Insurance**

We maintain a general liability insurance policy of \$5.0 million for each facility we operate, as well as insurance in amounts we deem adequate to cover property and casualty risks, workers' compensation and directors and officers liability. In addition, each of our leases with third-parties provides that the lessee will maintain insurance on each leased property under the lessee's insurance policies providing for the following coverages: (i) fire, vandalism and malicious mischief, extended coverage perils, and all physical loss perils; (ii) comprehensive general public liability (including personal injury and property damage); and (iii) workers' compensation. Under each of these leases, we have the right to periodically review our lessee's insurance coverage and provide input with respect thereto.

Insurance expense represents a significant component of our operating expenses. Each of our management contracts and the statutes of certain states require the maintenance of insurance. We maintain various insurance policies including employee health, workers' compensation, automobile liability and general liability insurance. Because we are significantly self-insured for employee health, workers' compensation, and automobile liability insurance, the amount of our insurance expense is dependent on claims experience, and our ability to control our claims experience. Our insurance policies contain various deductibles and stop-loss amounts intended to limit our exposure for individually significant occurrences. However, the nature of our self-insurance policies provides little protection for a deterioration in overall claims experience. We continue to incur increasing insurance expense due to adverse claims experience. We are developing a strategy to improve the management of our future loss claims but can provide no assurance that this strategy will be successful. Additionally, general liability insurance costs have risen substantially since the terrorist attacks on September 11, 2001. Unanticipated additional insurance expenses resulting from adverse claims experience or a continued increasing cost environment for general liability and other types of insurance could adversely impact our results of operations and cash flows. See Risk Factors Risks Related to Our Business We are subject to necessary insurance costs.

### **Employees**

As of March 1, 2003, we employed 13,700 employees. Of such employees, 210 were employed at our corporate offices and 13,490 were employed at our facilities and in our inmate transportation business. We employ personnel in the following areas: clerical and administrative, including facility administrators/wardens, security, food service, medical, transportation and scheduling, maintenance, teachers, counselors and other support services.

Each of the correctional and detention facilities we currently operate is managed as a separate operational unit by the facility administrator or warden. All of these facilities follow a standardized code of policies and procedures.

We have not experienced a strike or work stoppage at any of our facilities. Approximately 1,100 employees at seven of our facilities are represented by labor unions. This number includes approximately 200 employees at one facility who, during the first half of 2002 elected to be represented by a union. At this time, negotiations with this union is ongoing. In the opinion of management, overall employee relations are generally considered good.

### **Competition**

The correctional and detention facilities we operate and manage, as well as those facilities we own and are managed by other operators, are subject to competition for inmates from other private prison managers. We compete primarily on the basis of the quality and range of services offered, our experience in the operation and management of correctional and detention facilities and our reputation. We compete with government agencies that are responsible for correctional facilities and a number of privatized correctional service companies, including, but not limited to, Wackenhut Corrections Corporation, Correctional Services Corporation and Cornell Companies, Inc. Other potential competitors may in the future enter into businesses competitive with us without a substantial capital investment or prior experience. Competition by other companies may adversely affect the number of inmates at our facilities,

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which could have a material adverse effect on the operating revenue of our facilities. In addition, revenue derived from our facilities will be affected by a number of factors, including the demand for inmate beds, general economic conditions and the age of the general population.

### **Legal Proceedings and Income Tax Matters and Contingencies**

#### ***General***

The nature of our business results in claims and litigation alleging that we are liable for damages arising from the conduct of our employees or others. In the opinion of management, other than the litigation matters set forth below, there are no pending legal proceedings that would have a material effect on our consolidated financial position or results of operations for which we have not established adequate reserves. Adversarial proceedings and litigation are, however, subject to inherent uncertainties, and unfavorable decisions and rulings could occur which could have a material adverse impact on our consolidated financial position, results of operations or cash flows for a period in which such decisions and rulings occur, or future periods. See Risk Factors Risks Related to Our Business We are subject to legal proceedings associated with owning and managing correctional and detention facilities.

#### ***Pending Litigation***

During the second quarter of 2002, we completed the settlement of certain claims made against us as the successor to U.S. Corrections Corporation, or USCC, a privately-held owner and operator of correctional and detention facilities which was acquired by a predecessor of ours in April 1998, by participants in USCC's Employee Stock Ownership Plan, referred to herein as the ESOP. As a result of the settlement, we made a cash payment of \$575,000 to the plaintiffs in the action. As described below, we are currently in litigation with USCC's insurer seeking to recover all or a portion of this settlement amount. The USCC ESOP litigation, entitled *Horn v. McQueen*, continued to proceed, however, against two other defendants, Milton Thompson and Robert McQueen, both of whom were stockholders and executive officers of USCC and trustees of the ESOP prior to our acquisition of USCC. In the *Horn* litigation, the ESOP participants allege numerous violations of the Employee Retirement Income Security Act, including breaches of fiduciary duties to the ESOP by causing the ESOP to overpay for employer securities. The plaintiffs in the action are seeking damages in excess of \$30.0 million plus prejudgment interest and attorneys' fees, although expert testimony in the litigation has indicated actual damages of significantly less than that. On July 29, 2002, the United States District Court for the Western District of Kentucky found that McQueen and Thompson had breached their fiduciary duties to the ESOP, but made no determination as to the amount of any damages. It is not known when the Court will make a finding with respect to damages.

In or about the second quarter of 2001, Northfield Insurance Co., the issuer of the liability insurance policy to USCC and its directors and officers (Northfield), filed suit against McQueen, Thompson and us seeking a declaration that it did not owe coverage under the policy for any liabilities arising from the *Horn* litigation. Among other things, Northfield claimed that it did not receive timely notice of the litigation under the terms of the policy. McQueen and Thompson subsequently filed a cross-claim in the *Northfield* litigation against us, claiming that, as the result of our failure to timely notify the insurance carrier of the *Horn* case on their behalf, they were entitled to indemnification for contribution from us for any loss incurred by them as a result of the *Horn* litigation if there were no insurance available to cover the loss, if any. On September 30, 2002, the Court in the *Northfield* litigation found that Northfield was not obligated to cover McQueen and Thompson or us. Though it did not resolve the cross-claim, the Court did note that there was no basis for excusing McQueen and Thompson from their obligation to provide timely notice to the carrier because of our alleged failure to provide timely notice to the carrier. Upon the entry of a final order by the Court, we intend to appeal the Court's decision that Northfield is not obligated to provide coverage, and we intend to continue to defend our position that coverage is required.

We cannot currently predict whether or not we will be successful in recovering all or a portion of the amount we have paid in settlement of the *Horn* litigation. With respect to the cross-claim of McQueen

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and Thompson, we believe that such cross-claim is without merit and that we will be able to defend ourselves successfully against such claim and/or any additional claim of such nature that may be brought in the future. No assurance can be given, however, that McQueen and Thompson will not prevail in any such claims.

***Income Tax Contingencies***

In connection with the merger with Old CCA on December 31, 1998, we assumed the tax obligations of Old CCA. The Internal Revenue Service has completed field audits of Old CCA's federal tax returns for the taxable years ended December 31, 1998 and 1997, and has also completed auditing our federal tax return for the taxable years ended December 31, 2000 and 1999. In addition, the IRS has recently commenced an audit of our federal tax return for the taxable year ended December 31, 2001.

The IRS agent's report related to 1998 and 1997 included a determination by the IRS to increase taxable income by approximately \$120.0 million. We appealed the IRS's findings with the Appeals Office of the IRS. On October 24, 2002 we entered into a definitive settlement agreement with the IRS in connection with the IRS's audit of old CCA's 1997 federal income tax return. Under the terms of the settlement, in consideration for the IRS's final determinations with respect to the 1997 tax year, in December 2002 we paid \$52.2 million in cash to satisfy federal and state taxes and interest.

Pursuant to the terms of the settlement, the audit adjustments agreed to for the 1997 tax year will not trigger any additional distribution requirements in order to preserve our status as a REIT for federal income tax purposes for 1999. The adjustments will, however, serve to increase our accumulated earnings and profits in 2002 and therefore will affect the taxability of dividends paid on our series A and series B preferred stock in 2002 and later years.

We are continuing to appeal the IRS's findings with respect to the IRS's audit of Old CCA's 1998 federal income tax return. Although we can provide no assurance, we do not currently expect that the resolution of the 1998 audit will have a material adverse effect on our liquidity or results of operations.

In connection with the IRS's audit of our 2000 federal tax return, the IRS has proposed the disallowance of a loss we claimed as the result of our forgiveness in September 2000 of certain indebtedness of one of our former operating companies. This finding is currently being protested with the Appeals Office of the IRS. In the event that, after we seek all available remedies, the IRS prevails, we would be required to pay the IRS in excess of \$56.0 million in cash plus penalties and interest. In addition, this adjustment would also substantially eliminate our net operating loss carryforward, and would result in increased cash tax liabilities on taxable income thereafter. We believe that we have meritorious defenses of our positions. We have not established a reserve for this matter. However, the IRS may make such an assessment and prevail in any such claim against us.

Because the audit of our federal tax return for the taxable year ended December 31, 2001 has only recently commenced, it is too early to predict the outcome of such audit.

In addition, although the IRS has concluded its audit of our federal tax return for the taxable year ended December 31, 1999, the statute of limitations for such taxable year still has not expired. Thus, our election of REIT status for 1999 remains subject to review by the IRS generally until expiration of three years from the date of filing of our 1999 federal tax return. While we believe that we met the qualifications as a REIT for 1999, qualification as a REIT involves the application of highly technical and complex provisions of the Code for which there is only limited judicial and administrative interpretations. Should the IRS subsequently disallow our election to be taxed as a REIT for the 1999 taxable year, we would be subject to income taxes and interest on our 1999 taxable income and possibly could be subject to penalties, which would have an adverse impact on our financial position, results of operations and cash flows.

**Table of Contents****MANAGEMENT****Directors and Executive Officers**

The following table sets forth certain information concerning our directors and executive officers as of March 31, 2003.

Name	Age	Position
William F. Andrews(1)	71	Director, Chairman of the Board of Directors
John D. Ferguson(1)	57	Director, Vice-Chairman of the Board of Directors, Chief Executive Officer and President
Lucius E. Burch, III(1)(2)	61	Director
John D. Correnti(3)	55	Director
John R. Horne(3)	65	Director
C. Michael Jacobi(2)	61	Director
Thurgood Marshall, Jr.(4)	46	Director
Charles L. Overby(2)(4)	56	Director
John R. Prann, Jr.(3)	52	Director
Joseph V. Russell(1)(3)(4)	62	Director
Henri L. Wedell(2)	61	Director
James A. Seaton	53	Executive Vice President, Chief Operating Officer
Irving E. Lingo, Jr.	51	Executive Vice President, Chief Financial Officer and Asst. Secretary
G. A. Puryear IV	34	Executive Vice President, General Counsel and Secretary
Kenneth A. Bouldin	60	Executive Vice President, Chief Development Officer
David M. Garfinkle	35	Vice President, Finance
Todd J. Mullenger	44	Vice President, Treasurer
Jimmy Turner	44	Vice President, Operations

- (1) Member of the Executive Committee of the Board of Directors
- (2) Member of the Audit Committee of the Board of Directors
- (3) Member of the Compensation Committee of the Board of Directors
- (4) Member of the Nominating and Corporate Governance Committee of the Board of Directors

*William F. Andrews* currently serves as a director of the Company and as the Chairman of its board of directors (the Board), positions he has held since August 2000. Mr. Andrews also serves as a member of the Executive Committee of the Board. Mr. Andrews has been a principal of Kohlberg & Company, a private equity firm specializing in middle market investing, since 1995 and is currently the chairman of the board of directors of Katy Industries, Inc., a publicly-traded manufacturer and distributor of consumer electric corded products and maintenance cleaning products, among other product lines. Mr. Andrews served as a director of JJFMSI from its formation in 1998 to July 2000 and served as a member of the board of directors of Old CCA from 1986 to May 1998. Mr. Andrews has served as the chairman of Scovill Fasteners Inc., a manufacturing company, from 1995 to 2001 and has served as the chairman of Northwestern Steel and Wire Company, a manufacturing company, from 1998 to 2001. From 1995 to 1998, Mr. Andrews served as chairman of Schrader-Bridgeport International, Inc. and has also served as a member of the board of directors of Navistar International Corporation. Mr. Andrews also currently serves as a director of Black Box Corporation and Trex Corporation. Mr. Andrews is a graduate of the University of Maryland and received a Masters of Business Administration from Seton Hall University.

*John D. Ferguson* currently serves as a director of the Company and as our Chief Executive Officer, President and Vice-Chairman of the Board, positions he has held since August 2000. Mr. Ferguson also serves as the Chairman of the Executive Committee of the Company's Board of Directors. Prior to joining

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the Company, Mr. Ferguson served as the Commissioner of Finance for the State of Tennessee from June 1996 to July 2000. As Commissioner of Finance, Mr. Ferguson served as the State's chief corporate officer and was responsible for directing the preparation and implementation of the State's \$17.2 billion budget. From 1990 to February 1995, Mr. Ferguson served as the chairman and chief executive officer of Community Bancshares, Inc., the parent corporation of The Community Bank of Germantown (Tennessee). Mr. Ferguson is a former member of the State of Tennessee Board of Education and served on the Governor's Commission on Practical Government for the State of Tennessee. Mr. Ferguson graduated from Mississippi State University in 1967.

*Lucius E. Burch, III* currently serves as a director of the Company and as a member of the Audit Committee of the Board, positions he has held since December 2000. Mr. Burch also serves as a member of the Executive Committee of the Board. Mr. Burch currently serves as chairman and chief executive officer of Burch Investment Group, a private venture capital firm located in Nashville, Tennessee, formerly known as Massey Burch Investment Group, Inc., a position he has held since October 1989. Mr. Burch served as a member of the board of directors of Old CCA from May 1998 through the completion of its merger with the Company, and as the chairman of the board of directors of the Operating Company from January 1999 through the completion of the Company's restructuring. Mr. Burch has served on a number of public and private boards of directors, including seven NYSE-listed companies. Mr. Burch graduated from the University of North Carolina where he received a B.A. degree in 1963.

*John D. Correnti* currently serves as a director of the Company and as a member of the Compensation Committee of the Board, positions he has held since December 2000. From December 1999 through December 2002, Mr. Correnti served as the chairman of the board of directors and as the chief executive officer of Birmingham Steel Corporation, a publicly-traded steel manufacturing company acquired by Nucor Corporation, a publicly-traded mini-mill manufacturer of steel products, in December 2002. Mr. Correnti served as the president, chief executive officer and vice chairman of Nucor Corporation from 1996 to 1999 and as its president and chief operating officer from 1991 to 1996. Mr. Correnti also serves as a director of Navistar International Corporation. Mr. Correnti holds a B.S. degree in civil engineering from Clarkson University.

*John R. Horne* currently serves as a director of the Company, a position he has held since December 2001. Since February 2002, Mr. Horne has also served as a member of the Compensation Committee of the Board. Mr. Horne also currently serves as chairman of Navistar International Corporation, a publicly-traded truck and engine manufacturer, a position he has held since April 1996. From March 1995 to February 2003, Mr. Horne also served as Navistar's President and chief executive officer after having served as the company's chief operating officer for more than four years. Mr. Horne also currently serves on the board of directors of Internet Corporation, the National Association of Manufacturers and Junior Achievement of Chicago, as well as the board of trustees of Manufacturer's Alliance/ MAPI. Mr. Horne received his M.S. degree in mechanical engineering from Bradley University in 1964, a B.S. degree in mechanical engineering from Purdue University in 1960, which also awarded him an Honorary Doctor of Engineering degree on May 17, 1998, and is a graduate of the management program at Harvard Graduate School of Business Administration.

*C. Michael Jacobi* currently serves as a director of the Company and as the Chairman of the Audit Committee of the Board, positions he has held since December 2000. Mr. Jacobi is currently the president, chief executive officer and board member of Katy Industries, Inc., a publicly-traded manufacturer and distributor of consumer electric corded products and maintenance cleaning products, among other product lines. Mr. Jacobi currently serves as a member of the board of directors of Webster Financial Corporation, a publicly-held bank headquartered in Waterbury, Connecticut and as a member of the board of directors of Innotek, Inc., a privately-held company located in Garrett, Indiana engaged in the manufacture of electronic pet containment systems. Mr. Jacobi served as the president and chief executive officer of Timex Corporation from December 1993 to August 1999 and as a member of its board of directors from 1992 to 2000. Mr. Jacobi is a certified public accountant and holds a B.S. degree from the University of Connecticut.



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*Thurgood Marshall, Jr.* currently serves as a director of the Company, a position he has held since December 2002. Mr. Marshall also serves as a member of the Nominating and Corporate Governance Committee of the Board. Mr. Marshall is a partner in the law firm of Swidler Berlin Shereff Friedman LLP in Washington, D.C. Previously, he has held political appointments in each branch of the federal government, including Cabinet Secretary to President Clinton, and Director of Legislative Affairs and Deputy Counsel to Vice President Al Gore. In his role under President Clinton, Mr. Marshall was the chief liaison between the President and the agencies of the Executive Branch. In his current legal career, he practices in the firm's Government Affairs Group and represents clients appearing before federal agencies and Congress. Mr. Marshall, the son of the late Supreme Court Justice Thurgood Marshall, earned a B.A. in 1978 and a J.D. in 1981 from the University of Virginia, after which he clerked for United States District Judge Barrington D. Parker. He chairs the American Bar Association Election Law Committee, and serves as a board member of the National Fish & Wildlife Foundation and the Supreme Court Historical Society. He also serves as the Vice Chair of the Ethics Oversight Committee of the United States Olympic Committee.

*Charles L. Overby* currently serves as a director of the Company, a position he has held since December 2001. Since February 2002, Mr. Overby has also served as a member of the Audit Committee of the Board. Mr. Overby has also served as the Chairman of the Board's Nominating and Corporate Governance Committee since the Committee's establishment in December 2002. Mr. Overby also serves as chairman and chief executive officer of The Freedom Forum, an independent, non-partisan foundation dedicated to the First Amendment and media issues, and two of the foundation's affiliate organizations: the Newseum and The Freedom Forum First Amendment Center. Mr. Overby is a former Pulitzer Prize-winning editor in Jackson, Mississippi. He worked for 16 years as reporter, editor and corporate executive for Gannett Company, the nation's largest newspaper company. He was vice president for news and communications for Gannett and served on the management committees of Gannett and USA TODAY. Mr. Overby serves on the board of the Committee to Protect Journalists, the Board of Regents of Baylor University and the board of the National Collegiate Athletic Association Foundation. Mr. Overby attended the University of Mississippi and is a member of its foundation board.

*John R. Prann, Jr.* currently serves as a director of the Company and as a member of the Compensation Committee of the Board, positions he has held since December 2000. Mr. Prann served as the president and chief executive officer of Katy Industries, Inc. from 1993 to February 2001. From 1991 to 1995, Mr. Prann served as the president and chief executive officer of CRL, Inc., an equity and real estate investment company that held a 25% interest in Katy Industries, Inc. A former partner with the accounting firm of Deloitte & Touche, Mr. Prann graduated from the University of California, Riverside in 1974 and obtained his M.B.A. from the University of Chicago in 1979.

*Joseph V. Russell* currently serves as a director of the Company, a position he has held since the Company's merger with Old Prison Realty and Old CCA. Mr. Russell also serves as the Chairman of the Compensation Committee of the Board, as a member of the Executive Committee and of the Nominating and Corporate Governance Committee of the Board. Prior to the Company's merger with Old Prison Realty and Old CCA, Mr. Russell served as an independent trustee of Old Prison Realty. Mr. Russell is the president and chief financial officer of Elan-Polo, Inc., a Nashville-based, privately held world-wide producer and distributor of footwear. Mr. Russell is also the vice president of, and a principal in, RCR Building Corporation, a Nashville-based, privately held builder and developer of commercial and industrial properties. He also serves on the boards of directors of Community Care Corp., the Footwear Distributors of America Association and US Auto Insurance Company. Mr. Russell graduated from the University of Tennessee in 1963 with a B.S. in Finance.

*Henri L. Wedell* currently serves as a director of the Company and as a member of the Audit Committee of the Board, positions he has held since December 2000. Mr. Wedell currently is a private investor in Memphis, Tennessee. Prior to Mr. Wedell's retirement in 1999, he served as the senior vice president of sales of The Robinson Humphrey Co., a wholly owned subsidiary of Smith-Barney, Inc., an investment banking company with which he was employed for over 24 years. From 1990 to 1996, he served as a member of the board of directors of Community Bancshares, Inc., the parent corporation to

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The Community Bank of Germantown (Tennessee). Mr. Wedell graduated from the Tulane University Business School, where he received a B.B.A. in 1963.

*James A. Seaton* currently serves as an Executive Vice President and as the Chief Operating Officer of the Company, positions he has held since July 2002. Prior to joining the Company, Mr. Seaton managed his own consulting/contracting CEO firm, serving as Interim Presidents for AMCAS (a subsidiary of Questcom, Inc.), Treats and Eats, and APT Image. From 1998 to 2000, Mr. Seaton served as President-School Services Division of Sodexo Marriott Services, based in Maryland, where he was responsible for management and growth of the \$420 million division and 8,500 associates. From 1972 to 1998, he served in various leadership roles for Marriott International in Washington, D.C., including Senior Vice President-Corporate Services. He is a graduate of New Mexico State University.

*Irving E. Lingo, Jr.* currently serves as an Executive Vice President and as the Chief Financial Officer and Assistant Secretary of the Company, positions he has held since December 2000. Prior to joining the Company, Mr. Lingo was chief financial officer for Bradley Real Estate, Inc., an NYSE-listed REIT headquartered in Chicago, Illinois, where he was responsible for financial accounting and reporting, including SEC compliance, capital markets and mergers and acquisitions from September 1995 to September 2000. Prior to joining Bradley Real Estate, Inc., Mr. Lingo held positions as chief financial officer, chief operating officer and vice president, finance for several public and private companies, including Lingerfelt Industrial Properties, CSX Corporation and Goodman Segar Hogan, Inc. In addition, he was previously an audit manager at Ernst & Young LLP. Mr. Lingo graduated summa cum laude from Old Dominion University where he received a B.S. degree in Business Administration.

*G. A. Puryear IV* currently serves as an Executive Vice President and as the General Counsel and Secretary of the Company, positions he has held since January 2001. Prior to joining the Company, from 1998 to 2001 Mr. Puryear served as legislative director and counsel for U.S. Senator Bill Frist, where he worked on legislation and other policy matters. During that time, he also took a leave of absence to serve as a debate advisor to Vice President Richard B. Cheney. In addition, from 1997 to 1998, Mr. Puryear was counsel to the special investigation of campaign finance abuses during the 1996 elections conducted by the U.S. Senate Committee on Governmental Affairs, which was chaired by U.S. Senator Fred Thompson. Prior to his career on Capitol Hill, Mr. Puryear practiced law with Farris, Warfield & Kanaday, PLC (now Stites & Harbison, PLLC) in Nashville in the commercial litigation section. Mr. Puryear graduated from Emory University with a major in Political Science in 1990 and received his J.D. from the University of North Carolina in 1993.

*Kenneth A. Bouldin* currently serves as an Executive Vice President and as the Chief Development Officer of the Company. Prior to joining the Company, Mr. Bouldin was the President of KAB Associates, Inc., a management consulting company. Mr. Bouldin established Econotech, an information technology staffing firm, in 1995, which achieved revenues of \$15 million per annum and was sold in 2000. Mr. Bouldin served as vice president of Comdisco, Inc. and manager of its Federal Marketing Group from 1993 to 1995. Mr. Bouldin also served as president and chief operating officer of the Computer Dealers and Lessors Association, which he had previously helped form and served as chairman of its board of directors. Mr. Bouldin also co-founded Econocom, a business that sold and leased new and used data processing equipment. Mr. Bouldin has also had a lengthy military career, rising to the rank of Major General and serving as a commanding general of the 125th Army Reserve Command during Desert Storm. Mr. Bouldin graduated cum laude from the University of Tennessee with a B.S. degree in electrical engineering.

*David M. Garfinkle* currently serves as the Vice President, Finance of the Company, a position he has held since February 2001. Prior to joining the Company, Mr. Garfinkle was the vice president and controller for Bradley Real Estate, Inc. since 1996. Prior to joining Bradley Real Estate, Inc., Mr. Garfinkle was a senior audit manager at KPMG Peat Marwick LLP. Mr. Garfinkle graduated summa cum laude from St. Bonaventure University in 1989 with a B.B.A. degree.

*Todd J. Mullenger* currently serves as the Vice President, Treasurer of the Company, a position he has held since January 2001. Mr. Mullenger served as the Vice President, Finance of the Company from

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August 2000 to January 2001. Mr. Mullenger served as vice president, finance of Operating Company from January 1, 1999 through the completion of the Company's restructuring. Mr. Mullenger also previously served as the vice president of Old CCA from August 1998 until the completion of its merger with the Company. From September 1996 to July 1998, Mr. Mullenger served as assistant vice president-finance of Service Merchandise Company, Inc., a former publicly traded retailer headquartered in Brentwood, Tennessee. Prior to September 1996, Mr. Mullenger served as an audit manager with Arthur Andersen LLP. Mr. Mullenger graduated from the University of Iowa in 1981 with a B.B.A. degree. He also received an M.B.A. from Middle Tennessee State University.

*Jimmy Turner* currently serves as the Vice President, Operations of the Company, a position he has held since the completion of the Company's restructuring. From August 1999 through the completion of the Company's restructuring, Mr. Turner served as vice president of operations of the Operating Company. A 22-year corrections professional, Mr. Turner served as warden of the Company's Northeast Ohio Correctional Center in Youngstown, Ohio from March 1998 to his promotion to vice president of Operating Company in 1999. Mr. Turner joined Old CCA in 1989 as assistant warden of the Company's Silverdale Facilities in Chattanooga, Tennessee. He also served as assistant warden at the Company's Winn Correctional Center in Winnfield, Louisiana and the Company's Metro-Davidson County Detention Facility in Nashville, Tennessee, where he ultimately was promoted to warden. Mr. Turner also served as a senior divisional director of Old CCA. Mr. Turner attended Sam Houston State University in Huntsville, Texas from 1980 to 1982.

Additional Information

The following information supersedes the information set forth in the Company's Proxy Statement filed with the Commission on April 11, 2003: (a) the following are salary amounts for 2001: John D. Ferguson, \$350,000; J. Michael Quinlan, \$308,000; Irving E. Lingo, Jr., \$275,000; G.A. Puryear IV, \$151,154; and Jimmy Turner, \$180,000; and (b) as of December 31, 2002, approximately 149,000 shares of Series B Preferred Stock remained subject to vesting under the Company's Series B Restricted Stock Plans.

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**DESCRIPTION OF CERTAIN EXISTING INDEBTEDNESS**

***Senior Secured Credit Facility***

*General.* Concurrently with the closing of the offering of the 9.875% notes in May 2002, we obtained a new senior secured credit facility with a syndicate of financial institutions and institutional lenders through the amendment and restatement of our then existing senior secured credit facility. Lehman Commercial Paper Inc. serves as administrative agent under our new facility.

As of March 31, 2003, our senior secured credit facility is in the aggregate principal amount of \$745 million, consisting of:

an approximate four-year revolving credit facility of up to \$75 million in revolving credit loans and letters of credit;

an approximate four-year Term Loan A Facility of \$75 million in term loans; and

an approximate six-year Term Loan B Facility of \$595 million in term loans.

The revolving credit facility will be used for working capital and general corporate needs. Set forth below is a summary of the material terms of the senior secured credit facility.

***Collateral and Guarantees.*** The loans and other obligations under the senior secured credit facility are guaranteed by each of our domestic subsidiaries.

Our obligations under the senior secured credit facility and the guarantees are secured by:

a perfected first priority security interest in all of our tangible and intangible assets and all of the tangible and intangible assets of our subsidiaries, subject to certain customary exceptions; and

a pledge of all of the capital stock of our domestic subsidiaries and 65% of the capital stock of our foreign subsidiaries.

***Interest and Fees.*** Our borrowings under the senior secured credit facility bear interest at a rate which, at our option, can be either:

a base rate generally defined as the sum of (i) the higher of (x) the prime rate (as quoted on the British Banking Association Telerate Page 5) and (y) the federal funds effective rate plus one-half percent (0.50%) per annum and (ii) an applicable margin; or

a LIBOR rate generally defined as the sum of (i) the rate at which eurodollar deposits for one, two, three or six months (as selected by us) are offered in the interbank eurodollar market and (ii) an applicable margin.

The initial applicable margin for the base rate loans is 2.50%, and the applicable margin for the eurodollar loans is 3.50%. Commencing on the date of delivery of our financial statements occurring after the completion of two full fiscal quarters following the closing of the senior secured credit facility, the applicable margin for the revolving loans and term loan A will be subject to adjustment based on our leverage ratio.

Interest on our borrowings is payable quarterly in arrears for base rate loans and at the end of each interest rate period (but not less often than quarterly) for LIBOR rate based loans.

We are also required to pay a commitment fee on the difference between committed amounts and amounts actually utilized under the revolving credit facility, which will be 0.50% per annum subject to adjustment based on our leverage ratio.

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**Repayments; Prepayments.** The Term Loan A facility and Term Loan B facility require quarterly installments in an aggregate principal amount for each year as set forth in the table below as of March 1, 2003 (in thousands):

	<u>Term Loan A Facility</u>	<u>Term Loan B Facility</u>	<u>Total</u>
2003	\$ 17,250	\$ 5,950	\$ 23,200
2004	20,250	5,950	26,200
2005	21,000	5,950	26,950
2006	5,250	5,950	11,200
2007		397,320	397,320
2008		169,643	169,643
	<hr/>	<hr/>	<hr/>
<b>TOTAL</b>	<b>\$ 63,750</b>	<b>\$ 590,763</b>	<b>\$ 654,513</b>
	<hr/>	<hr/>	<hr/>

Prepayments of loans outstanding are permitted at any time without premium or penalty, upon the giving of proper notice. In addition, we are required to prepay amounts outstanding under the new senior secured credit facility in an amount equal to:

50% of the net cash proceeds from any sale or issuance of equity by us or any of our subsidiaries, subject to certain exceptions;

100% of the net cash proceeds from any incurrence of additional indebtedness (excluding certain permitted debt), subject to certain exceptions;

100% of the net cash proceeds from any sale or other disposition by us, or any of our subsidiaries, of any assets, subject to certain exclusions and reinvestment provisions and excluding certain dispositions in the ordinary course; and

50% of excess cash flow for each fiscal year.

**Certain Covenants.** The senior secured credit facility requires us to meet certain financial tests, including, without limitation:

a minimum fixed charge coverage ratio requiring that at the end of each fiscal quarter, our Consolidated EBITDA, as defined under the facility (minus the aggregate amount actually paid by us or any of our subsidiaries in cash during such period on account of capital expenditures), be no less than a range of percentages (ranging from 100% to 115% over the six year term of the senior secured credit facility) of our Consolidated Fixed Charges, as defined under the facility, for the most recent four fiscal quarters;

a maximum leverage ratio requiring that at the end of each fiscal quarter, our Consolidated Debt as defined under the facility be no greater than a range of percentages (ranging from 590% to 350% over the six year term of the senior secured credit facility) of our Consolidated EBITDA, as defined under the facility, for the most recent four fiscal quarters; and

a minimum interest coverage ratio requiring that at the end of each fiscal quarter, our Consolidated EBITDA, as defined under the facility (including the interest component of all payments associated with capital lease obligations) be no less than a range of percentages (generally ranging from 150% to 250% over the six year term of the senior secured credit facility) of our Consolidated Interest Expense, as defined under the facility, for the most recent four fiscal quarters.

As of December 31, 2002, we were in compliance with the foregoing covenants, and we believe that we are currently in compliance with these covenants. In addition, the senior secured credit facility contains certain covenants which, among other things, limit the incurrence of additional indebtedness, investments, dividends, transactions with affiliates, assets sales, acquisitions, capital expenditures, mergers and

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consolidations, prepayments of other indebtedness, liens and encumbrances and other matters customarily restricted in such agreements.

**Events of Default.** The senior secured credit facility contains customary events of default, including, without limitation, payment defaults, breaches of representations and warranties, covenant defaults, cross-defaults to certain other material indebtedness in excess of specified amounts, certain events of bankruptcy and insolvency, certain ERISA events, judgment defaults in excess of specified amounts, termination or amendment of certain material agreements if such termination or amendment could reasonably be expected to be materially adverse to the lenders or otherwise have a material adverse effect and change in control.

**9.875% Senior Notes**

**General.** We currently have \$250.0 million in aggregate principal amount of 9.875% senior unsecured notes outstanding. These notes mature on May 1, 2009 and bear interest at 9.875% per annum. Payments of accrued but unpaid interest on these notes are due on May 1 and November 1 of each year, beginning on November 1, 2002. The notes are guaranteed by all of our domestic subsidiaries (other than our Puerto Rican subsidiary). The notes and subsidiary guarantees are senior obligations of ours and our subsidiary guarantors. Accordingly, they rank:

equally with all of our and our subsidiary guarantors existing and future unsecured senior debt;

ahead of any of our and our subsidiary guarantors future debt that expressly provides for subordination to the notes or the guarantees; and

subordinated to any of our and our subsidiary guarantors secured indebtedness to the extent of the value of the security for that indebtedness.

The indenture governing the notes permits us and the guarantors to incur substantial additional senior indebtedness. Our ability to incur any additional indebtedness is limited by the specific terms of the indenture governing the notes.

**Optional Redemption.** At any time on or prior to May 1, 2005, we may on any one or more occasions redeem up to 35% of the aggregate principal amount of outstanding notes at a redemption price of 109.875% of the principal amount, plus accrued and unpaid interest and liquidated damages, if any, to the redemption date, with the net cash proceeds of one or more equity offerings; provided that:

at least 65% of the aggregate principal amount of notes issued under the indenture remains outstanding immediately after the occurrence of such redemption (excluding notes held by us and our subsidiary); and

the redemption occurs within 90 days of the date of the closing of such equity offering.

Except pursuant to the preceding paragraph, the notes will not be redeemable at our option prior to May 1, 2006.

Beginning May 1, 2006, we may, at our option, redeem all or a part of the notes upon not less than 30 nor more than 60 days notice, at the redemption prices (expressed as percentages of principal amount) set forth below plus accrued and unpaid interest and liquidated damages, if any, on the notes redeemed, to the applicable redemption date, if redeemed during the 12-month period beginning on May 1 of the years indicated below:

Year	Percentage
2006	104.938%
2007	102.469%
2008 and thereafter	100.000%

**Mandatory Offer to Repurchase.** If we sell certain assets or experience specific kinds of changes in control, we must offer to repurchase the notes at the prices, plus accrued and unpaid interest and

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liquidated damages, if any, to the date of redemption, listed in the indenture. Sufficient funds may not be available to us, however, at the time of any change of control event to repurchase all or a portion of notes tendered pursuant to this requirement.

***Certain Covenants.*** Covenants in the indenture restrict our ability and the ability of our subsidiaries, with exceptions, to, among other things, pay dividends, incur additional debt or issue preferred stock, create or permit to exist certain liens, incur restrictions on the ability of certain of our subsidiaries to pay dividends or other payments, consolidate, merge or transfer all or substantially all of our assets and enter into transactions with affiliates. These covenants are subject to a number of important exceptions and qualifications.

***Events of Default.*** Each of the following is an event of default:

default for 30 days in the payment when due of interest on, or liquidated damages with respect to, the notes;

default in payment when due of the principal of, or premium, if any, on the notes;

failure by us or any of our subsidiaries to comply with our obligation to repurchase the notes upon a change of control or sale of assets;

failure by us or any subsidiary guarantor for 60 consecutive days after notice to comply with any of the other agreements in the indenture;

default under any mortgage, indenture or instrument under which there may be issued or by which there may be secured or evidenced any indebtedness if that default:

- (a) is caused by a failure to pay principal of, or interest or premium, if any, on such indebtedness prior to the expiration of the grace period; or
- (b) results in the acceleration of such indebtedness prior to its express maturity, and, in each case, the principal amount of any such indebtedness, together with the principal amount of any other such indebtedness under which there has been a default or the maturity of which has been so accelerated, aggregates \$25.0 million or more;

failure by us or any subsidiaries to pay final judgments aggregating in excess of \$25.0 million, which judgments are not paid, discharged or stayed for a period of 60 days;

except as permitted by the indenture, any subsidiary guarantor shall be held in any judicial proceeding to be unenforceable or invalid or shall cease for any reason to be in full force and effect or any guarantor, or any person acting on behalf of any guarantor, shall deny or disaffirm its obligations under its subsidiary guarantee; and

certain events of bankruptcy or insolvency described in the indenture with respect to us or any of our subsidiaries.

***12% Senior Notes***

We currently have approximately \$10.8 million aggregate principal amount of 12% Senior Notes outstanding. These notes mature on June 1, 2006 and bear interest at 12% per annum. Payments of accrued but unpaid interest on these notes are due on June 1 and December 1 of each year.

On May 16, 2002, we completed an offer to purchase all these notes and a consent solicitation designed to remove, following the purchase of these notes, substantially all of the restrictive covenants and a number of the events of default that currently apply to the notes. Pursuant to the terms of the offer to purchase and consent solicitation, holders of approximately \$89.2 million aggregate principal amount of the notes tendered their notes and received \$1,100 plus accrued and unpaid interest on such principal amount of notes for each \$1,000 principal amount of notes tendered.

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As a result of this tender offer and consent solicitation, we have amended the indenture governing the notes to remove substantially all of the covenants and events of default. Such amendment became operative upon our purchase of the notes tendered in connection with the consent.

***\$40 Million Convertible Subordinated Notes.***

We currently have outstanding the MDP Notes, an aggregate of \$40.0 million of 10% convertible subordinated notes due December 31, 2008. The conversion price for the notes, which are convertible into shares of our common stock, has been established at \$11.90, subject to adjustment in the future upon the occurrence of certain events. At an adjusted conversion price of \$11.90, the \$40.0 million convertible subordinated notes are currently convertible into 3,362,899 shares of our common stock. We have agreed to repurchase the common stock issuable upon conversion of these notes and pay all accrued interest upon consummation of the common stock offering and receipt of the lender consent.

***\$30 Million Convertible Subordinated Notes.***

We currently have outstanding an aggregate of \$30.0 million of 8% convertible subordinated notes due February 28, 2005, subject to extension of such maturity until February 28, 2006 or February 28, 2007 by the holder. The Company and the holder have agreed to amend these notes to bear interest at 4% per year to a maturity date of February 28, 2005, expected to be effective contemporaneously with the closing of the notes offering. The conversion price for the notes, which are convertible into shares of our common stock, has been established at \$8.90, subject to adjustment in the future upon the occurrence of certain events. We currently estimate that the \$30.0 million convertible subordinated notes will be convertible into approximately 3.4 million shares of our common stock once all of the shares under the stockholder litigation settlement have been issued. See Management's Discussion and Analysis of Financial Condition and Results of Operations Year Ended December 31, 2000 Stockholder litigation settlement.

All or a portion of the notes may be converted by the holder at any time prior to the maturity date of the notes, or if the notes are subject to mandatory conversion, at any time prior to the third business day prior to the date of such conversion. At any time after February 28, 2004 (to be amended to February 28, 2005 effective contemporaneously with the closing of the notes offering), we may generally require the holder to convert all or a portion of the notes if the average market price of our common stock meets or exceeds 150% of the notes' conversion price, as may be adjusted. We may not prepay the indebtedness evidenced by the notes at any time prior to their maturity; provided, however, that in the event of a change of control or other similar event, the notes are subject to mandatory prepayment in full at the option of the holder. The current terms of our senior indebtedness, however, would prevent such a prepayment.



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**DESCRIPTION OF NOTES**

You can find the definitions of certain terms used in this description under the subheading **Certain Definitions**. In this description, the word **CCA** refers only to Corrections Corporation of America and not to any of its Subsidiaries.

CCA will issue the Notes under its indenture to be dated as of May 7, 2003 (the **Base Indenture**), as amended and supplemented by a supplemental indenture to be dated the Issue Date (the **Supplemental Indenture**) among itself, the Guarantors and U.S. Bank National Association, as trustee. The Base Indenture as amended and supplemented by the Supplemental Indenture is referred to herein as the **Indenture**. The terms of the Notes include those stated in the Indenture and those made part of the Indenture by reference to the Trust Indenture Act of 1939, as amended (the **Trust Indenture Act**). In the event of any discrepancy or conflict between the terms of the Supplemental Indenture and the Base Indenture, the terms of the Supplemental Indenture will control.

The following description is a summary of the material provisions of the Indenture. It does not restate the Indenture in its entirety. We urge you to read the Indenture because it, and not this description, defines your rights as holders of the Notes. We will file a copy of the Supplemental Indenture as an exhibit to a Form 8-K that will be incorporated by reference into the registration statement which includes this prospectus supplement.

The registered Holder of a Note will be treated as the owner of it for all purposes. Only registered Holders will have rights under the Indenture.

**Brief Description of the Notes and the Subsidiary Guarantees**

*The Notes*

The Notes:

are general unsecured obligations of CCA;

are equal in right of payment with all existing and future unsecured senior Indebtedness of CCA;

are senior in right of payment to any future subordinated Indebtedness of CCA; and

are unconditionally guaranteed by the Guarantors.

However, the Notes are effectively subordinated to all borrowings under CCA's senior secured credit facility, which is secured by liens on substantially all of the assets of CCA and the Guarantors.

All of CCA's existing domestic Subsidiaries are **Restricted Subsidiaries** and will be Guarantors. CCA currently does not have any material foreign operations.

However, under the circumstances described below under the subheading **Certain Covenants** **Designation of Restricted and Unrestricted Subsidiaries**, CCA will be permitted to designate certain of its Subsidiaries, whether formed under the laws of any state of the United States or the laws of any other country, as **Unrestricted Subsidiaries**. CCA's **Unrestricted Subsidiaries** will not be subject to many of the restrictive covenants in the Indenture. Our **Unrestricted Subsidiaries** will not guarantee the Notes.

*The Subsidiary Guarantees*

The Notes are guaranteed by all of CCA's existing Domestic Subsidiaries (as defined) and future subsidiaries that execute guarantees in accordance with the Indenture as described in **Certain Covenants** **Additional Subsidiary Guarantees**.



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Each Subsidiary Guarantee of the Notes:

is a general senior unsecured obligation of such Guarantor;

is equal in right of payment to all existing and future senior unsecured Indebtedness of that Guarantor; and

is senior in right of payment with any future subordinated Indebtedness of that Guarantor.

Not all of CCA's existing Subsidiaries will guarantee the Notes. In the event of a bankruptcy, liquidation or reorganization of any of these non-guarantor Subsidiaries, the non-guarantor Subsidiaries will pay the holders of their debt and their trade creditors before they will be able to distribute any of their assets to CCA. The non-guarantor Subsidiaries generated less than 1.0% of CCA's consolidated revenues in 2002 and owned less than 1.0% of CCA's consolidated assets at all times throughout such period. The non-guarantor Subsidiaries have no outstanding third-party debt.

### **Principal, Maturity and Interest**

CCA will issue Notes with a maximum aggregate principal amount of \$250.0 million in this offering. CCA may also, at its option, issue additional notes under the Indenture from time to time after this offering in one or a series of transactions, subject to the covenant described below under the caption "Certain Covenants - Incurrence of Indebtedness and Issuance of Preferred Stock." The Notes and any additional notes of the same series subsequently issued under the Indenture will be treated as a single class for all purposes under the Indenture, including, without limitation, redemption of Notes, offers to purchase Notes and the percentage of Notes required to consent to waivers of provisions of, and amendments to, the Indenture. The Indenture provides that CCA will issue Notes in denominations of \$1,000 and integral multiples of \$1,000. The Notes will mature on May 1, 2011.

Interest on the Notes will accrue at the rate of 7 1/2% per annum and will be payable semi-annually in arrears on May 1 and November 1, commencing on November 1, 2003. We will make each interest payment to the Holders of record on the close of business on the immediately preceding April 15 and October 15.

Interest on the Notes will accrue from the date of original issuance or, if interest has already been paid, from the date it was most recently paid. Interest will be computed on the basis of a 360-day year comprised of twelve 30-day months.

### **Methods of Receiving Payments on the Notes**

If a Holder has given wire transfer instructions to CCA, CCA will pay all principal, interest and premium, if any, on that Holder's Notes in accordance with those instructions. All other payments on the Notes will be made at the office or agency of the paying agent and registrar within the City and State of New York unless CCA elects to make interest payments by check mailed to the Holders at their address set forth in the register of Holders.

### **Paying Agent and Registrar for the Notes**

The trustee will initially act as paying agent and registrar for the Notes. CCA may change the paying agent or registrar without prior notice to the Holders of the Notes, and CCA or any of its Subsidiaries may act as paying agent or registrar.

### **Transfer and Exchange**

A Holder may transfer or exchange Notes in accordance with the Indenture. The registrar and the trustee may require a Holder to furnish appropriate endorsements and transfer documents in connection with a transfer of Notes. Holders will be required to pay all taxes due on transfer. CCA is not required to transfer or exchange any Note selected for redemption. Also, CCA is not required to transfer or exchange any Note for a period of 15 days before a selection of Notes to be redeemed.

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**Subsidiary Guarantees**

The Notes will be guaranteed by each of CCA's current and future Domestic Subsidiaries if such Domestic Subsidiaries become guarantors of CCA's senior secured credit facility. These Subsidiary Guarantees will be joint and several obligations of the Guarantors. The obligations of each Guarantor under its Subsidiary Guarantee will be limited as necessary to prevent that Subsidiary Guarantee from constituting a fraudulent conveyance under applicable law. See Risk Factors Risks Related to the Offering Federal and state Statutes allow courts, under specific circumstances, to void guarantees and require noteholders to return payments received from guarantors.

A Guarantor may not sell or otherwise dispose of all or substantially all of its assets to, or consolidate with or merge with or into (whether or not such Guarantor is the surviving Person), another Person, other than CCA or another Guarantor, unless:

- (1) immediately after giving effect to that transaction, no Default or Event of Default exists; and
- (2) either:
  - (a) the Person acquiring the property in any such sale or disposition or the Person formed by or surviving any such consolidation or merger assumes all the obligations of that Guarantor under the Indenture and its Subsidiary Guarantee with respect to the Notes pursuant to a supplemental indenture satisfactory to the trustee; or
  - (b) the Net Proceeds of such sale or other disposition are applied in accordance with the applicable provisions of the Indenture.

The Subsidiary Guarantee of a Guarantor will be released:

- (1) in connection with any sale or other disposition of all or substantially all of the assets of that Guarantor (including by way of merger or consolidation) to a Person that is not (either before or after giving effect to such transaction) a Subsidiary of CCA, if the sale or other disposition complies with the Asset Sale provisions of the Indenture described in Repurchase at the Option of Holders Asset Sales ;
- (2) in connection with any sale of all of the Capital Stock of a Guarantor to a Person that is not (either before or after giving effect to such transaction) a Subsidiary of CCA, if the sale complies with the Asset Sale provisions of the Indenture described in Repurchase at the Option of Holders Asset Sales ;
- (3) if CCA designates any Restricted Subsidiary that is a Guarantor as an Unrestricted Subsidiary in accordance with the applicable provisions of the Indenture; or
- (4) upon Legal Defeasance or Covenant Defeasance of the Notes, as described in Legal Defeasance and Covenant Defeasance.

**Optional Redemption**

At any time on or prior to May 1, 2006, CCA may on any one or more occasions redeem up to 35% of the aggregate principal amount of outstanding Notes issued under the Indenture at a redemption price of 107.5% of the principal amount, plus accrued and unpaid interest, if any, to the redemption date, with the net cash proceeds of one or more Equity Offerings; provided that:

- (1) at least 65% of the aggregate principal amount of Notes issued under the Indenture remains outstanding immediately after the occurrence of such redemption (excluding Notes held by CCA and its Subsidiaries); and
- (2) the redemption occurs within 90 days of the date of the closing of such Equity Offering.

Except pursuant to the preceding paragraph, the Notes will not be redeemable at CCA's option prior to May 1, 2007.

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Beginning May 1, 2007, CCA may, at its option, redeem all or a part of the Notes upon not less than 30 nor more than 60 days' notice, at the redemption prices (expressed as percentages of principal amount) set forth below plus accrued and unpaid interest, if any, on the Notes redeemed, to the applicable redemption date, if redeemed during the 12-month period beginning on May 1 of the years indicated below:

Year	Percentage
2007	103.750%
2008	101.875%
2009 and thereafter	100.000%

For a description of the procedures applicable to a redemption of all or part of the Notes pursuant to the provisions of the Indenture described in this section, see Selection and Notice.

**Mandatory Redemption**

CCA is not required to make mandatory redemption or sinking fund payments with respect to the Notes.

**Repurchase at the Option of Holders***Change of Control*

If a Change of Control occurs, each Holder of Notes will have the right to require CCA to repurchase all or any part (equal to \$1,000 or an integral multiple of \$1,000) of that Holder's Notes pursuant to a Change of Control Offer on the terms set forth in the Indenture. In the Change of Control Offer, CCA will offer a Change of Control Payment in cash equal to 101% of the aggregate principal amount of Notes repurchased plus accrued and unpaid interest, if any, on the Notes repurchased, to the date of purchase. Within 10 business days following any Change of Control, CCA will mail a notice to each Holder describing the transaction or transactions that constitute the Change of Control and offering to repurchase Notes on the Change of Control Payment Date specified in the notice, which date will be no earlier than 30 days and no later than 60 days from the date such notice is mailed, pursuant to the procedures required by the Indenture and described in such notice. CCA will comply with the requirements of Rule 14e-1 under the Exchange Act and any other securities laws and regulations thereunder to the extent those laws and regulations are applicable in connection with the repurchase of the Notes as a result of a Change of Control. To the extent that the provisions of any securities laws or regulations conflict with the Change of Control provisions of the Indenture, CCA will comply with the applicable securities laws and regulations and will not be deemed to have breached its obligations under the Change of Control provisions of the Indenture by virtue of such conflict.

On the Change of Control Payment Date, CCA will, to the extent lawful:

- (1) accept for payment all Notes or portions of Notes properly tendered pursuant to the Change of Control Offer;
- (2) deposit with the paying agent an amount equal to the Change of Control Payment in respect of all Notes or portions of Notes properly tendered; and
- (3) deliver or cause to be delivered to the trustee the Notes properly accepted together with an Officers' Certificate stating the aggregate principal amount of Notes or portions of Notes being purchased by CCA.

The paying agent will promptly mail to each Holder of Notes properly tendered the Change of Control Payment for such Notes, and the trustee will promptly authenticate and mail (or cause to be transferred by book entry) to each Holder a new Note equal in principal amount to any unpurchased portion of the Notes surrendered, if any; provided that each new Note will be in a principal amount of \$1,000 or an integral multiple of \$1,000.

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CCA will publicly announce the results of the Change of Control Offer on or as soon as practicable after the Change of Control Payment Date.

The provisions described above that require CCA to make a Change of Control Offer following a Change of Control will be applicable whether or not any other provisions of the Indenture are applicable. Except as described above with respect to a Change of Control, the Indenture does not contain provisions that permit the Holders of the Notes to require that CCA repurchase or redeem the Notes in the event of a takeover, recapitalization or similar transaction.

CCA will not be required to make a Change of Control Offer upon a Change of Control if a third party makes the Change of Control Offer in the manner, at the times and otherwise in compliance with the requirements set forth in the Indenture applicable to a Change of Control Offer made by CCA and purchases all Notes properly tendered and not withdrawn under the Change of Control Offer.

The definition of Change of Control includes a phrase relating to the direct or indirect sale, lease, transfer, conveyance or other disposition of all or substantially all of the properties or assets of CCA and its Subsidiaries taken as a whole. Although there is a limited body of case law interpreting the phrase substantially all, there is no precise established definition of the phrase under applicable law. Accordingly, the ability of a Holder of Notes to require CCA to repurchase its Notes as a result of a sale, lease, transfer, conveyance or other disposition of less than all of the assets of CCA and its Subsidiaries taken as a whole to another Person or group may be uncertain.

The Credit Agreement contains, and other Indebtedness of CCA may contain, prohibitions on the occurrence of events that would constitute a Change of Control or require that Indebtedness be repurchased upon a Change of Control. Moreover, the exercise by the Holders of their right to require CCA to repurchase the Notes upon a Change of Control would cause a default under the Credit Agreement and other Indebtedness even if the Change of Control itself does not.

If a Change of Control Offer occurs, there can be no assurance that CCA will have available funds sufficient to make the Change of Control Payment for all of the Notes that might be delivered by Holders seeking to accept the Change of Control Offer. In the event CCA is required to purchase outstanding Notes pursuant to a Change of Control Offer, CCA expects that it would seek third-party financing to the extent it does not have available funds to meet its purchase obligations and any other obligations in respect of its other indebtedness. However, there can be no assurance that CCA would be able to obtain necessary financing. See Risk Factors Risks Related to this Offering We are required to repurchase all or a portion of our 9.875% notes and the Notes to be issued in this offering upon a change of control.

### *Asset Sales*

CCA will not, and will not permit any of its Restricted Subsidiaries to, directly or indirectly, consummate an Asset Sale unless:

- (1) CCA (or the Restricted Subsidiary, as the case may be) receives consideration at the time of the Asset Sale at least equal to (a) the fair market value of the assets (other than Designated Assets) or Equity Interests issued or sold or otherwise disposed of and (b) the Designated Asset Value of the Designated Assets sold or otherwise disposed of;
- (2) the fair market value or Designated Asset Value, as applicable, is determined by CCA's Board of Directors and evidenced by a resolution of the Board of Directors set forth in an Officers' Certificate delivered to the trustee; and
- (3) at least 75% of the consideration received in the Asset Sale by CCA or such Restricted Subsidiary is in the form of cash. For purposes of this clause (3) only, each of the following will be deemed to be cash:
  - (a) any liabilities, as shown on CCA's or such Restricted Subsidiary's most recent balance sheet, of CCA or any Restricted Subsidiary (other than contingent liabilities and liabilities that are by their terms subordinated to the Notes or any Subsidiary Guarantee) that are

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assumed by the transferee of any such assets pursuant to a customary novation agreement that releases CCA or such Restricted Subsidiary from further liability;

- (b) any securities, notes or other obligations received by CCA or any such Restricted Subsidiary from such transferee that are converted within 90 days of the applicable Asset Sale by CCA or such Restricted Subsidiary into cash or Cash Equivalents, to the extent of the cash or Cash Equivalents received in that conversion;
- (c) 100% of the securities, notes or other obligations or Indebtedness actually received by CCA as consideration for the sale or other disposition of a Designated Asset pursuant to the terms of a Designated Asset Contract, but only to the extent that such securities, notes or other obligations or Indebtedness were explicitly required to be included, or permitted to be included solely at the option of the purchaser, in such consideration pursuant to the terms of the applicable Designated Asset Contract; and
- (d) 100% of the Indebtedness actually received by CCA as consideration for the sale or other disposition of an Unoccupied Facility.

Notwithstanding the foregoing, CCA and its Restricted Subsidiaries may engage in Asset Swaps; provided that, (1) immediately after giving effect to such Asset Swap, CCA would be permitted to incur at least \$1.00 of additional Indebtedness pursuant to the Fixed Charge Coverage Ratio test set forth in the first paragraph of the covenant described below under the caption Certain Covenants Incurrence of Indebtedness and Issuance of Preferred Stock and (2) the Board of Directors of CCA determines that the fair market value of the assets received by CCA in the Asset Swap is not less than the fair market value of the assets disposed of by CCA in such Asset Swap and such determination is evidenced by a resolution of the Board of Directors set forth in an Officers Certificate delivered to the trustee.

Within 360 days after the receipt of any Net Proceeds from an Asset Sale, CCA may apply those Net Proceeds:

- (1) to repay permanently Indebtedness under a Credit Facility and, if the Indebtedness permanently repaid is revolving credit Indebtedness, to correspondingly reduce commitments with respect thereto;
- (2) to acquire all or substantially all of the assets of, or a majority of the Voting Stock of, another Permitted Business;
- (3) to make a capital expenditure (provided, that the completion of (i) construction of new facilities, (ii) expansions to existing facilities, and (iii) repair or reconstruction of damaged or destroyed facilities which commences within 360 days after the receipt of any Net Proceeds from an Asset Sale by CCA may extend for an additional 360 day period if the Net Proceeds to be used for such construction, expansion or repair are committed to and set aside specifically for such activity within 360 days of their receipt);
- (4) to acquire other long-term assets that are used or useful in a Permitted Business; or
- (5) with respect to the sale of the Northeast Ohio Correctional Facility in Youngstown, Ohio, CCA may use 50% of the Net Proceeds from such sale to repurchase, redeem or otherwise acquire or retire for value shares of CCA's series B preferred stock.

Pending the final application of any Net Proceeds, CCA may temporarily reduce revolving credit borrowings or otherwise invest the Net Proceeds in any manner that is not prohibited by the Indenture. For avoidance of doubt, prior to being required to permanently reduce revolving credit facility commitments CCA shall have the option of making an Asset Sale Offer in accordance with the terms of the Indenture.

Any Net Proceeds from Asset Sales that are not applied or invested as provided in the preceding paragraph will constitute Excess Proceeds. When the aggregate amount of Excess Proceeds exceeds \$15.0 million, CCA will make an Asset Sale Offer to all Holders of Notes and, at CCA's option, all

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holders of other Indebtedness that is *pari passu* with the Notes containing provisions similar to those set forth in the Indenture with respect to offers to purchase or redeem with the proceeds of sales of assets to purchase the maximum principal amount of Notes and such other *pari passu* Indebtedness that may be purchased out of the Excess Proceeds. The offer price in any Asset Sale Offer will be equal to 100% of principal amount plus accrued and unpaid interest, if any, to the date of purchase, and will be payable in cash. If any Excess Proceeds remain after consummation of an Asset Sale Offer, CCA may use those Excess Proceeds for any purpose not otherwise prohibited by the Indenture. If the aggregate principal amount of Notes and other *pari passu* Indebtedness tendered into such Asset Sale Offer exceeds the amount of Excess Proceeds, the trustee will select the Notes and such other *pari passu* Indebtedness to be purchased on a pro rata basis. Upon completion of each Asset Sale Offer, the amount of Excess Proceeds will be reset at zero.

CCA will comply with the requirements of Rule 14e-1 under the Exchange Act and any other securities laws and regulations thereunder to the extent those laws and regulations are applicable in connection with each repurchase of Notes pursuant to an Asset Sale Offer. To the extent that the provisions of any securities laws or regulations conflict with the Asset Sale provisions of the Indenture, CCA will comply with the applicable securities laws and regulations and will not be deemed to have breached its obligations under the Asset Sale provisions of the Indenture by virtue of such conflict.

The agreements governing CCA's other Indebtedness contain prohibitions of certain events, including certain types of Asset Sales. In addition, the exercise by the Holders of Notes of their right to require CCA to repurchase the Notes in connection with an Asset Sale Offer could cause a default under these other agreements, even if the Asset Sale itself does not, due to the financial effect of such repurchases on CCA. Finally, CCA's ability to pay cash to the Holders of Notes upon a repurchase may be limited by CCA's then existing financial resources. See Risk Factors - Risks Related to this Offering - We are required to repurchase all or a portion of our 9.875% notes and the Notes to be issued in this offering upon a change of control.

For a description of the procedures applicable to a redemption of all or a part of the Notes pursuant to the provisions of the Indenture described in this section, see Selection and Notice.

### *Selection and Notice*

If less than all of the Notes are to be redeemed at any time, the trustee will select Notes for redemption as follows:

- (1) if the Notes are listed on any national securities exchange, in compliance with the requirements of the principal national securities exchange on which the Notes are listed; or
- (2) if the Notes are not listed on any national securities exchange, on a pro rata basis (based on amounts tendered), by lot or by such method as the trustee deems fair and appropriate.

No Notes of \$1,000 or less can be redeemed in part. Notices of redemption will be mailed by first class mail at least 30 but not more than 60 days before the redemption date to each Holder of Notes to be redeemed at its registered address, except that redemption notices may be mailed more than 60 days prior to a redemption date if the notice is issued in connection with a defeasance of the Notes or a satisfaction and discharge of the Indenture. Notices of redemption may not be conditional.

If any Note is to be redeemed in part only, the notice of redemption that relates to that Note will state the portion of the principal amount of that Note that is to be redeemed. A new Note in principal amount equal to the unredeemed portion of the original Note will be issued in the name of the Holder of Notes upon cancellation of the original Note. Notes called for redemption become due on the date fixed for redemption. On and after the redemption date, interest ceases to accrue on Notes or portions of them called for redemption.



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**Certain Covenants**

*Restricted Payments*

CCA will not, and will not permit any of its Restricted Subsidiaries to, directly or indirectly:

- (1) declare or pay any dividend or make any other payment or distribution on account of CCA's, or any Restricted Subsidiary's, Equity Interests (including, without limitation, any payment in connection with any merger or consolidation involving CCA or any Restricted Subsidiary) or to the direct or indirect holders of CCA's or any Restricted Subsidiary's Equity Interests in their capacity as such (other than dividends or distributions (i) payable in Equity Interests (other than Disqualified Stock) of CCA or (ii) payable to CCA and/or a Restricted Subsidiary of CCA);
- (2) purchase, redeem or otherwise acquire or retire for value (including, without limitation, in connection with any merger or consolidation involving CCA) any Equity Interests of CCA;
- (3) make any payment on or with respect to, or purchase, redeem, defease or otherwise acquire or retire for value any Indebtedness that is expressly subordinated to the Notes or the Subsidiary Guarantees, except a payment of interest or principal at the Stated Maturity thereof or a payment of principal or interest on Indebtedness owed to CCA or any of its Restricted Subsidiaries; or
- (4) make any Restricted Investment (all such payments and other actions set forth in these clauses (1) through (4) above being collectively referred to as Restricted Payments ),

unless, at the time of and after giving effect to such Restricted Payment:

- (1) no Default or Event of Default has occurred and is continuing or would occur as a consequence of such Restricted Payment; and
- (2) CCA would, at the time of such Restricted Payment and after giving pro forma effect thereto as if such Restricted Payment had been made at the beginning of the applicable four-quarter period, have been permitted to incur at least \$1.00 of additional Indebtedness pursuant to the Fixed Charge Coverage Ratio test set forth in the first paragraph of the covenant described below under the caption Incurrence of Indebtedness and Issuance of Preferred Stock; and
- (3) such Restricted Payment, together with the aggregate amount of all other Restricted Payments made by CCA and its Restricted Subsidiaries after May 3, 2002 (excluding Restricted Payments permitted by clauses (2), (3), (4), (5), (7), (8) and (9) of the next succeeding paragraph), is less than the sum, without duplication, of:
  - (a) 50% of the Consolidated Net Income After Preferred Cash Dividend of CCA, for the period (taken as one accounting period) from the beginning of the first fiscal quarter commencing after May 3, 2002 to the end of CCA's most recently ended fiscal quarter for which internal financial statements are available at the time of such Restricted Payment (or, if such Consolidated Net Income for such period is a deficit, less 100% of such deficit), *plus*
  - (b) 100% of the aggregate net cash proceeds received by CCA since May 3, 2002 as a contribution to its common equity capital or from the issue or sale of Equity Interests of CCA (other than Disqualified Stock) or from the issue or sale of convertible or exchangeable Disqualified Stock or convertible or exchangeable debt securities of CCA that have been converted into or exchanged for such Equity Interests (other than Equity Interests (or Disqualified Stock or debt securities) sold to a Subsidiary of CCA), *plus*
  - (c) to the extent that any Restricted Investment (other than a Restricted Investment permitted by clause (5) of the next succeeding paragraph) that was made after May 3, 2002 is sold for cash or otherwise liquidated or repaid for cash, the lesser of (i) the cash return of

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capital with respect to such Restricted Investment (less the cost of disposition, if any) and (ii) the initial amount of such Restricted Investment, *plus*

(d) to the extent that any Unrestricted Subsidiary of CCA is redesignated as a Restricted Subsidiary after May 3, 2002, the lesser of (i) the fair market value of CCA's Investment in such Subsidiary as of the date of such redesignation or (ii) such fair market value as of the date on which such Subsidiary was originally designated as an Unrestricted Subsidiary, *plus*

(e) \$10 million.

So long as no Default has occurred and is continuing or would be caused thereby, the preceding provisions will not prohibit:

(1) the payment of any dividend within 60 days after the date of declaration of the dividend, if at the date of declaration the dividend payment would have complied with the provisions of the Indenture;

(2) the redemption, repurchase, retirement, defeasance or other acquisition of any subordinated Indebtedness of CCA or any Guarantor or of any Equity Interests of CCA in exchange for, or out of the net cash proceeds of the substantially concurrent sale (other than to a Subsidiary of CCA) of, Equity Interests of CCA (other than Disqualified Stock); *provided* that the amount of any such net cash proceeds that are utilized for any such redemption, repurchase, retirement, defeasance or other acquisition will be excluded from clause (3)(b) of the preceding paragraph;

(3) the defeasance, redemption, repurchase or other acquisition of subordinated Indebtedness of CCA or any Guarantor with the net cash proceeds from an incurrence of Permitted Refinancing Indebtedness;

(4) the payment of any dividend by a Restricted Subsidiary of CCA to the holders of its Equity Interests on a pro rata basis;

(5) (a) the purchase, redemption or other acquisition, cancellation or retirement for value of Capital Stock, or options, warrants, equity appreciation rights or other rights to purchase or acquire Capital Stock of CCA or any Restricted Subsidiary of CCA or any parent of CCA held by any existing or former employees of CCA or any Subsidiary of CCA or their assigns, estates or heirs, in each case in connection with the repurchase provisions under employee stock option or stock purchase agreements or other agreements to compensate management employees; provided that such redemptions or repurchases pursuant to this clause will not exceed \$2.5 million in the aggregate during any calendar year and \$10 million in the aggregate for all such redemptions and repurchases; provided further, that CCA may carry-forward and make in a subsequent calendar year, in addition to the amounts permitted for such calendar year, the amount of such redemptions or repurchases permitted to have been made but not made in any preceding calendar year; provided further that such amount in any calendar year may be increased by an amount not to exceed (i) the cash proceeds from the sale of Capital Stock of CCA to existing or former employees of CCA or any Subsidiary of CCA after the date the Notes are originally issued (to the extent the cash proceeds from the sale of such Capital Stock have not otherwise been applied to the payment of Restricted Payments by virtue of clause (3)(b) of the preceding paragraph) plus (ii) the cash proceeds of key man life insurance policies received by CCA and its Subsidiaries after the date the Notes are originally issued less (iii) the amount of any Restricted Payments previously made pursuant to clause (i) and (ii) of this clause (5)(a); and (b) loans or advances to employees or directors of CCA or any Subsidiary of CCA the proceeds of which are used to purchase Capital Stock of CCA, in an aggregate amount not in excess of \$10.0 million at any one time outstanding;

(6) the declaration and payment by CCA of a dividend consisting of Qualified Trust Preferred Stock with a fair market value that is not greater than is necessary in order to preserve CCA's eligibility to elect REIT status with respect to its 1999 taxable year;

(7) the repurchase, redemption or other acquisition or retirement for value of up to \$130 million in liquidation preference of the series B preferred stock if CCA would, at the time of such Restricted

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Payment and after giving pro forma effect thereto as if such Restricted Payment had been made at the beginning of the applicable four-quarter period, have been permitted to incur at least \$1.00 of additional Indebtedness pursuant to the Fixed Charge Coverage Ratio test set forth in the first paragraph of the covenant described below under the caption Incurrence of Indebtedness and Issuance of Preferred Stock;

(8) repurchases of Equity Interests of CCA deemed to occur upon the exercise of stock options if such Equity Interests represent a portion of the exercise price thereof;

(9) the declaration and payment of dividends on CCA's series A preferred stock and series B preferred stock in accordance with terms of the series A preferred stock and series B preferred stock as in effect on the Issue Date;

(10) the payment of the liquidation preference of and all accrued and unpaid interest on 100% of issued and outstanding shares of CCA's series A preferred stock in accordance with terms of the series A preferred stock as in effect on the Issue Date and the notice of redemption to be given by CCA on the Issue Date;

(11) the redemption pursuant to their terms of all MDP Notes or PMI Notes that remain outstanding on the applicable redemption date after CCA sends notice of such redemption to the holders of such notes, *provided that* (i) CCA converts all MDP Notes and PMI Notes pursuant to their terms upon the proper request of a holder of such notes and (ii) the fair market value of the common stock received upon such conversion (measured as of the date the notice of redemption is given) is not less than one and one half times the proceeds such holder would receive pursuant to such redemption;

(12) the repurchase, redemption or other acquisition or retirement for value of the shares of series A preferred stock issued and outstanding on the Issue Date with the net proceeds from the issuance by a Qualified Trust of Qualified Trust Preferred Stock; and

(13) Restricted Payments not otherwise permitted in an amount not to exceed \$25.0 million.

The amount of all Restricted Payments (other than cash) will be the fair market value on the date of the Restricted Payment of the asset(s) or securities proposed to be transferred or issued by CCA or such Subsidiary, as the case may be, pursuant to the Restricted Payment. The fair market value of any assets or securities that are required to be valued by this covenant will be determined by the Board of Directors whose resolution with respect thereto will be delivered to the trustee. The Board of Directors' determination must be based upon an opinion or appraisal issued by an accounting, appraisal or investment banking firm of national standing if the fair market value exceeds \$15.0 million. Except with respect to any Restricted Payment permitted pursuant to clauses (1)-(13) of the immediately preceding paragraph, not later than 10 days following the end of the fiscal quarter in which such Restricted Payment was made, CCA will deliver to the trustee an Officers' Certificate stating that such Restricted Payment is permitted and setting forth the basis upon which the calculations required by this Restricted Payments covenant were computed, together with a copy of any fairness opinion or appraisal required by the Indenture.

*Incurrence of Indebtedness and Issuance of Preferred Stock*

CCA will not, and will not permit any of its Restricted Subsidiaries to, directly or indirectly, create, incur, issue, assume, guarantee or otherwise become directly or indirectly liable, contingently or otherwise, with respect to (collectively, "incur") any Indebtedness (including Acquired Debt), and CCA will not issue any Disqualified Stock and will not permit any of its Restricted Subsidiaries to issue any shares of preferred stock; provided, however, that CCA or its Restricted Subsidiaries may incur Indebtedness (including Acquired Debt) or issue Disqualified Stock, and the Guarantors may incur Indebtedness or issue preferred stock, if the Fixed Charge Coverage Ratio for CCA's most recently ended four full fiscal quarters for which internal financial statements are available immediately preceding the date on which such additional Indebtedness is incurred or such Disqualified Stock or preferred stock is issued would have been at least 2.0 to 1, determined on a pro forma basis (including a pro forma application of the net

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proceeds therefrom), as if the additional Indebtedness had been incurred or the preferred stock or Disqualified Stock had been issued, as the case may be, at the beginning of such four-quarter period.

The first paragraph of this covenant will not prohibit the incurrence of any of the following items of Indebtedness or the issuance of Disqualified Stock, as set forth below (collectively, Permitted Debt ):

(1) the incurrence by CCA and any Restricted Subsidiaries of Indebtedness under Credit Facilities in an aggregate principal amount at any one time outstanding under this clause (1) not to exceed \$715 million;

(2) the incurrence by CCA and its Restricted Subsidiaries of the Existing Indebtedness;

(3) the incurrence by CCA and the Guarantors of Indebtedness represented by the Notes and the related Subsidiary Guarantees to be issued on the Issue Date;

(4) the incurrence by CCA or any of its Restricted Subsidiaries of Indebtedness represented by Capital Lease Obligations, mortgage financings or purchase money obligations, in each case, incurred for the purpose of financing all or any part of the purchase price or cost of construction or improvement of property, plant or equipment used in the business of CCA or such Restricted Subsidiary, in an aggregate principal amount, including all Permitted Refinancing Indebtedness incurred to refund, refinance or replace any Indebtedness incurred pursuant to this clause (4), not to exceed \$25.0 million at any time outstanding;

(5) the incurrence by CCA or any of its Restricted Subsidiaries of Permitted Refinancing Indebtedness in exchange for, or the net proceeds of which are used to refund, refinance or replace Indebtedness (other than intercompany Indebtedness) or Disqualified Stock that was permitted by the Indenture to be incurred under the first paragraph of this covenant or clauses (2), (3), (4), (5), or (12) of this paragraph;

(6) the incurrence by CCA or any of its Restricted Subsidiaries of intercompany Indebtedness between or among CCA and any of its Restricted Subsidiaries or the refinancing or replacement of existing intercompany Indebtedness between or among CCA and any of its Restricted Subsidiaries; provided, however, that:

(a) if CCA or any Guarantor is the obligor on such Indebtedness, such Indebtedness must be expressly subordinated to the prior payment in full in cash of all Obligations with respect to the Notes, in the case of CCA, or the Subsidiary Guarantee, in the case of a Guarantor; and

(b) (i) any subsequent issuance or transfer of Equity Interests that results in any such Indebtedness being held by a Person other than CCA or a Restricted Subsidiary of CCA and (ii) any sale or other transfer of any such Indebtedness to a Person that is not either CCA or a Restricted Subsidiary of CCA will be deemed, in each case, to constitute an incurrence of such Indebtedness by CCA or such Restricted Subsidiary, as the case may be, that was not permitted by this clause (6);

(7) the incurrence by CCA or any of its Restricted Subsidiaries of Hedging Obligations that are incurred for the purpose of fixing or hedging interest rate risk with respect to any floating rate Indebtedness that is permitted by the terms of the Indenture to be outstanding or for hedging foreign currency exchange risk, in each case to the extent the Hedging Obligations are incurred in the ordinary course of business and not for any speculative purpose;

(8) the guarantee by CCA or any of its Restricted Subsidiaries of Indebtedness of CCA or a Restricted Subsidiary of CCA that was permitted to be incurred by another provision of this covenant;

(9) the accrual of interest, the accretion or amortization of original issue discount, the payment of interest on any Indebtedness in the form of additional Indebtedness with the same terms, and the payment of dividends on Disqualified Stock in the form of additional shares of the same class of Disqualified Stock will not be deemed to be an incurrence of Indebtedness or an issuance of Disqualified Stock for purposes of this covenant; provided, in each such case, that the amount thereof is included in Fixed Charges of CCA as accrued interest;

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(10) the incurrence by CCA or any of its Restricted Subsidiaries of Indebtedness, including Indebtedness represented by letters of credit for the account of CCA or any Restricted Subsidiary, incurred in respect of workers' compensation claims, self-insurance obligations, performance, proposal, completion, surety and similar bonds and completion guarantees provided by CCA or any of its Restricted Subsidiaries in the ordinary course of business; provided, that the underlying obligation to perform is that of CCA and its Restricted Subsidiaries and not that of CCA's Unrestricted Subsidiaries; provided further, that such underlying obligation is not in respect of borrowed money;

(11) the issuance of series B preferred stock by CCA solely for the purpose of the payment of dividends to the holders of the series B preferred stock made in accordance with CCA's Amended and Restated Charter;

(12) the incurrence by CCA or any of the Guarantors of additional Indebtedness in an aggregate principal amount (or accreted value, as applicable) at any time outstanding, including all Permitted Refinancing Indebtedness incurred to refund, refinance or replace any Indebtedness incurred pursuant to this clause (12), not to exceed \$60.0 million;

(13) the incurrence by CCA or any of its Restricted Subsidiaries of Indebtedness, including but not limited to Indebtedness represented by letters of credit for the account of CCA or any Restricted Subsidiary, arising from agreements of CCA or a Restricted Subsidiary providing for indemnification, adjustment of purchase price or similar obligations, in each case, incurred or assumed in connection with the disposition of any business, assets or Equity Interests of CCA or a Restricted Subsidiary, other than guarantees of Indebtedness incurred by any Person acquiring all or any portion of such business, assets or Equity Interests for the purpose of financing such acquisition;

(14) the incurrence by CCA or any Restricted Subsidiary of Indebtedness arising from the honoring by a bank or other financial institution of a check, draft or similar instrument (except in the case of daylight overdrafts) drawn against insufficient funds in the ordinary course of business, provided that such Indebtedness is extinguished within five business days of incurrence;

(15) the incurrence by CCA or a Restricted Subsidiary of Qualified Trust Indebtedness the proceeds of which are used to finance a Restricted Payment permitted by clause (6) or (12) of the second paragraph of the covenant described above under the caption "Certain Covenants Restricted Payments"; and

(16) the incurrence by CCA of indebtedness expressly subordinated to the Notes not to exceed an aggregate principal amount of \$2.9 million in satisfaction of the Stockholder Litigation.

CCA will not incur any Indebtedness (including Permitted Debt) that is contractually subordinated in right of payment to any other Indebtedness of CCA unless such Indebtedness is also contractually subordinated in right of payment to the Notes on substantially identical terms; provided, however, that no Indebtedness of CCA will be deemed to be contractually subordinated in right of payment to any other Indebtedness of CCA solely by virtue of being unsecured.

For purposes of determining compliance with the provisions in the Indenture relating to the Incurrence of Indebtedness and Issuance of Preferred Stock, in the event that an item of proposed Indebtedness meets the criteria of more than one of the categories of Permitted Debt described in clauses (1) through (16) above, or is entitled to be incurred pursuant to the first paragraph of this covenant, CCA will be permitted to classify such item of Indebtedness on the date of its incurrence, or later reclassify all or a portion of such item of Indebtedness, in any manner that complies with this covenant. Indebtedness under Credit Facilities outstanding on the date on which Notes are first issued and authenticated under the Indenture will be deemed to have been incurred on such date in reliance on the exception provided by clause (1) of the definition of Permitted Debt.

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*Liens*

CCA will not, and will not permit any of its Restricted Subsidiaries to, create, incur, assume or otherwise cause or suffer to exist or become effective any Lien of any kind (other than Permitted Liens) upon any of their property or assets, now owned or hereafter acquired, unless all payments due under the Indenture and the Notes are secured on an equal and ratable basis with the obligations so secured until such time as such obligations are no longer secured by a Lien.

*Dividend and Other Payment Restrictions Affecting Subsidiaries*

CCA will not, and will not permit any of its Restricted Subsidiaries to, directly or indirectly, create or permit to exist or become effective any consensual encumbrance or restriction on the ability of any Restricted Subsidiary to:

- (1) pay dividends or make any other distributions on its Capital Stock to CCA or any of its Restricted Subsidiaries, or with respect to any other interest or participation in, or measured by, its profits, or pay any indebtedness owed to CCA or any of its Restricted Subsidiaries;
- (2) make loans or advances to CCA or any of its Restricted Subsidiaries; or
- (3) transfer any of its properties or assets to CCA or any of its Restricted Subsidiaries.

However, the preceding restrictions will not apply to encumbrances or restrictions existing under or by reason of:

- (1) agreements governing Existing Indebtedness and Credit Facilities as in effect on the Issue Date and any amendments, modifications, restatements, renewals, increases, supplements, refundings, replacements or refinancings of those agreements, provided that the amendments, modifications, restatements, renewals, increases, supplements, refundings, replacement or refinancings are not materially more restrictive, taken as a whole, with respect to such dividend and other payment restrictions than those contained in those agreements on the Issue Date;
- (2) the Indenture, the Notes, and the related Subsidiary Guarantees;
- (3) applicable law;
- (4) any instrument governing Indebtedness or Capital Stock of a Person acquired by CCA or any of its Restricted Subsidiaries as in effect at the time of such acquisition (except to the extent such Indebtedness or Capital Stock was incurred in connection with or in contemplation of such acquisition), which encumbrance or restriction is not applicable to any Person, or the properties or assets of any Person, other than the Person, or the property or assets of the Person, so acquired, provided that, in the case of Indebtedness, such Indebtedness was permitted by the terms of the Indenture to be incurred;
- (5) customary non-assignment provisions of any contract entered into in the ordinary course of business and customary provisions restricting subletting of any interest in real property contained in any lease or easement agreement of CCA or any Restricted Subsidiary, or any customary restriction on the ability of a Restricted Subsidiary to dividend, distribute or otherwise transfer any asset which secures Indebtedness secured by a Lien and which Indebtedness and which Lien was permitted by the Indenture;
- (6) purchase money obligations for property acquired in the ordinary course of business that impose restrictions on that property of the nature described in clause (3) of the preceding paragraph;
- (7) any agreement for the sale or other disposition of all or substantially all of the assets or capital stock of a Restricted Subsidiary that restricts distributions by that Restricted Subsidiary pending its sale or other disposition of all or substantially all of the assets or capital stock of such Restricted Subsidiary;

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- (8) Permitted Refinancing Indebtedness, provided that the restrictions contained in the agreements governing such Permitted Refinancing Indebtedness with respect to dividends and other payments are not materially more restrictive, taken as a whole, than those contained in the agreements governing the Indebtedness being refinanced;
- (9) Liens securing Indebtedness otherwise permitted to be incurred under the provisions of the covenant described above under the caption *Liens* that limit the right of the debtor to dispose of the assets subject to such Liens;
- (10) provisions with respect to the disposition or distribution of assets or property in joint venture agreements, asset sale agreements, stock sale agreements and other similar agreements entered into in the ordinary course of business;
- (11) restrictions on cash or other deposits or net worth imposed by customers under contracts entered into in the ordinary course of business; and
- (12) any encumbrance or restriction pursuant to customary provisions restricting dispositions of real property interests set forth in any reciprocal easement agreements of CCA or any Restricted Subsidiary.

*Merger, Consolidation or Sale of Assets*

CCA shall not, in a single transaction or a series of related transactions, consolidate with or merge with or into any other Person or sell, assign, convey, transfer, lease or otherwise dispose of all or substantially all of its properties and assets to any Person or group of affiliated Persons, or permit any of its Restricted Subsidiaries to enter into any such transaction or transactions if such transaction or transactions, in the aggregate, would result in an assignment, conveyance, transfer, lease or disposition of all or substantially all of the properties and assets of CCA and its Restricted Subsidiaries taken as a whole to any other Person or group of affiliated Persons, unless at the time and after giving effect thereto:

- (1) either: (a) CCA or any Restricted Subsidiary is the surviving corporation; or (b) the Person formed by or surviving any such consolidation or merger (if other than CCA or any Restricted Subsidiary) or to which such sale, assignment, transfer, conveyance or other disposition has been made is a corporation organized or existing under the laws of the United States, any state of the United States or the District of Columbia;
- (2) the Person formed by or surviving any such consolidation or merger (if other than CCA or any Restricted Subsidiary) or the Person to which such sale, assignment, transfer, conveyance or other disposition has been made assumes all the obligations of CCA under the Notes and the Indenture pursuant to agreements reasonably satisfactory to the trustee;
- (3) immediately after such transaction no Default or Event of Default exists; and
- (4) CCA, the Restricted Subsidiary, or the other Person formed by or surviving any such consolidation or merger (if other than CCA or a Restricted Subsidiary), or to which such sale, assignment, transfer, conveyance or other disposition has been made will, on the date of such transaction after giving pro forma effect thereto and any related financing transactions as if the same had occurred at the beginning of the applicable four-quarter period, be permitted to incur at least \$1.00 of additional Indebtedness pursuant to the Fixed Charge Coverage Ratio test set forth in the first paragraph of the covenant described under the caption *Incurrence of Indebtedness and Issuance of Preferred Stock*.

The covenant described under this caption *Merger, Consolidation or Sale of Assets* will not apply to: (i) a sale, assignment, transfer, conveyance or other disposition of assets between or among CCA and any of its Restricted Subsidiaries; (ii) any merger of a Restricted Subsidiary into CCA or another Restricted Subsidiary; (iii) any merger of CCA into a wholly-owned Restricted Subsidiary created for the purpose of holding the Equity Interests of CCA; or (iv) a merger between CCA and a newly-created Affiliate incorporated solely for the purpose of reincorporating CCA in another State of the United States.

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*Transactions with Affiliates*

CCA will not, and will not permit any of its Restricted Subsidiaries to, make any payment to, or sell, lease, transfer or otherwise dispose of any of its properties or assets to, or purchase any property or assets from, or enter into or make or amend any transaction, contract, agreement, understanding, loan, advance or guarantee with, or for the benefit of, any Affiliate (each, an Affiliate Transaction ), unless:

- (1) the Affiliate Transaction is on terms that are no less favorable to CCA or the relevant Restricted Subsidiary than those that would have been obtained in a comparable transaction by CCA or such Restricted Subsidiary with an unrelated Person; and
- (2) CCA delivers to the trustee:
  - (a) with respect to any Affiliate Transaction or series of related Affiliate Transactions involving aggregate consideration in excess of \$10.0 million, a resolution of the Board of Directors set forth in an Officers Certificate certifying that such Affiliate Transaction complies with this covenant and that such Affiliate Transaction has been approved by a majority of the disinterested members of the Board of Directors; and
  - (b) with respect to any Affiliate Transaction or series of related Affiliate Transactions involving aggregate consideration in excess of \$20.0 million, an opinion as to the fairness to CCA of such Affiliate Transaction from a financial point of view issued by an accounting, appraisal or investment banking firm of national standing.

The following items will not be deemed to be Affiliate Transactions and, therefore, will not be subject to the provisions of the prior paragraph:

- (1) any employment or indemnity agreement entered into by CCA or any of its Restricted Subsidiaries in the ordinary course of business and consistent with the past practice of CCA or such Restricted Subsidiary;
- (2) transactions between or among CCA and/or its Restricted Subsidiaries;
- (3) transactions with a Person that is an Affiliate of CCA solely because CCA owns an Equity Interest in, or controls, such Person;
- (4) payment of reasonable directors fees to Persons who are not otherwise Affiliates of CCA;
- (5) sales of Equity Interests (other than Disqualified Stock) to Affiliates of CCA;
- (6) Restricted Payments that are permitted by the provisions of the Indenture described above under the caption Restricted Payments ; and
- (7) any issuance of securities, or other payments, awards or grants in cash, securities or otherwise pursuant to, or the funding of employment arrangements, stock options and stock ownership plans and other reasonable fees, compensation, benefits and indemnities paid or entered into by CCA or any of its Restricted Subsidiaries in the ordinary course of business to or with officers, directors or employees of CCA and its Restricted Subsidiaries.

*Additional Subsidiary Guarantees*

If any Subsidiary of CCA that is not a Guarantor enters into a Guarantee of a Credit Facility or any part of the Indebtedness created under Credit Facilities permitted to be incurred pursuant to clause (1) of the second paragraph of the covenant described above under the caption Certain Covenants Incurrence of Indebtedness and Issuance of Preferred Stock , then that Subsidiary will become a Guarantor and will execute a supplemental indenture and deliver an Opinion of Counsel satisfactory to the trustee within 10 business days of the date on which it was acquired or created.



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*Designation of Restricted and Unrestricted Subsidiaries*

The Board of Directors may designate any Restricted Subsidiary to be an Unrestricted Subsidiary if that designation would not cause a Default or Event of Default. If a Restricted Subsidiary is designated as an Unrestricted Subsidiary, the aggregate fair market value of all outstanding Investments owned by CCA and its Restricted Subsidiaries in the Subsidiary properly designated will be deemed to be Investments made as of the time of the designation, subject to the limitations on Restricted Payments. That designation will only be permitted if the Investment would be permitted at that time and if the Restricted Subsidiary otherwise meets the definition of an Unrestricted Subsidiary. The Board of Directors may redesignate any Unrestricted Subsidiary to be a Restricted Subsidiary if the redesignation would not cause a Default.

*Sale and Leaseback Transactions*

CCA will not, and will not permit any of its Restricted Subsidiaries to, enter into any Sale and Leaseback Transaction; provided that CCA or any Guarantor may enter into a Sale and Leaseback Transaction if:

- (1) CCA or that Guarantor, as applicable, could have (a) incurred Indebtedness in an amount equal to the Attributable Debt relating to such Sale and Leaseback Transaction under the Fixed Charge Coverage Ratio test in the first paragraph of the covenant described above under the caption Incurrence of Indebtedness and Issuance of Preferred Stock and (b) incurred a Lien to secure such Indebtedness pursuant to the covenant described above under the caption Liens;
- (2) the gross cash proceeds of that Sale and Leaseback Transaction are at least equal to the fair market value, as determined in good faith by the Board of Directors and set forth in an Officers Certificate delivered to the trustee, of the property that is the subject of that Sale and Leaseback Transaction; and
- (3) the transfer of assets in that Sale and Leaseback Transaction is permitted by, and CCA applies the proceeds of such transaction in compliance with, the covenant described above under the caption Repurchase at the Option of Holders Asset Sales.

*Business Activities*

CCA will not, and will not permit any Restricted Subsidiary to, engage in any business other than Permitted Businesses, except to such extent as would not be material to CCA and its Restricted Subsidiaries taken as a whole.

*Payments for Consent*

CCA will not, and will not permit any of its Restricted Subsidiaries to, directly or indirectly, pay or cause to be paid any consideration to or for the benefit of any Holder of Notes for or as an inducement to any consent, waiver or amendment of any of the terms or provisions of the Indenture or the Notes unless such consideration is offered to be paid and is paid to all Holders of the Notes that consent, waive or agree to amend in the time frame set forth in the solicitation documents relating to such consent, waiver or agreement.

*Reports*

Whether or not required by the Commission, so long as any Notes are outstanding, CCA will furnish to the Holders of Notes, within 5 days of the time periods specified in the Commission's rules and regulations:

- (1) all quarterly and annual financial and other information that would be required to be contained in a filing with the Commission on Forms 10-Q and 10-K if CCA were required to file such Forms, including a Management's Discussion and Analysis of Financial Condition and Results

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of Operations and, with respect to the annual information only, a report on the annual financial statements by CCA's certified independent accountants; and

(2) all current reports that would be required to be filed with the Commission on Form 8-K if CCA were required to file such reports.

In addition, whether or not required by the Commission, CCA will file a copy of all of the information and reports referred to in clauses (1) and (2) above with the Commission for public availability within the time periods specified in the Commission's rules and regulations (unless the Commission will not accept such a filing) and make such information available to prospective investors upon request. In addition, CCA and the Guarantors have agreed that, for so long as any Notes remain outstanding, they will furnish to the Holders and to prospective investors, upon their request, the information required to be delivered pursuant to Rule 144A(d)(4) under the Securities Act, if any such information is required to be delivered.

If CCA has designated any of its Subsidiaries as Unrestricted Subsidiaries, then the quarterly and annual financial information required by the preceding paragraph will include a reasonably detailed presentation, either on the face of the financial statements or in the footnotes thereto, and in Management's Discussion and Analysis of Financial Condition and Results of Operations, of the financial condition and results of operations of CCA and its Restricted Subsidiaries separate from the financial condition and results of operations of the Unrestricted Subsidiaries of CCA.

**Events of Default and Remedies**

Each of the following is an Event of Default:

(1) default for 30 days in the payment when due of interest on the Notes;

(2) default in payment when due of the principal of, or premium, if any, on the Notes;

(3) failure by CCA or any of its Restricted Subsidiaries to comply with the provisions described under the captions Repurchase at the Option of Holders, Change of Control, Repurchase at the Option of Holders, Asset Sales, or Certain Covenants, Merger, Consolidation or Sale of Assets;

(4) failure by CCA or any Guarantor for 60 consecutive days after notice to comply with any of the other agreements in the Indenture;

(5) default under any mortgage, indenture or instrument under which there may be issued or by which there may be secured or evidenced any Indebtedness for money borrowed by CCA or any Restricted Subsidiaries (or the payment of which is guaranteed by CCA or any Restricted Subsidiaries) whether such Indebtedness or guarantee now exists, or is created after the Issue Date, if that default:

(a) is caused by a failure to pay principal of, or interest or premium, if any, on such Indebtedness prior to the expiration of the grace period provided in such Indebtedness on the date of such default (a Payment Default); or

(b) results in the acceleration of such Indebtedness prior to its express maturity,

and, in each case, the principal amount of any such Indebtedness, together with the principal amount of any other such Indebtedness under which there has been a Payment Default or the maturity of which has been so accelerated, aggregates \$25.0 million or more, provided that any default described in clause (a) or (b) above on the MDP Notes shall not constitute an Event of Default pursuant to this clause (5) so long as CCA cures such default within 30 days of a final judgment by a court of competent jurisdiction that such default on the MDP Notes exists or that any alleged unpaid principal or interest on the MDP Notes is due and owing, which judgment is not stayed, paid or discharged within such 30 day period;

(6) failure by CCA or any of its Restricted Subsidiaries to pay final judgments aggregating in excess of \$25.0 million, which judgments are not paid, discharged or stayed for a period of 60 days;

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(7) except as permitted by the Indenture, any Subsidiary Guarantee shall be held in any judicial proceeding to be unenforceable or invalid or shall cease for any reason to be in full force and effect or any Guarantor, or any Person acting on behalf of any Guarantor, shall deny or disaffirm its obligations under its Subsidiary Guarantee; and

(8) certain events of bankruptcy or insolvency described in the Indenture with respect to CCA or any of its Restricted Subsidiaries.

In the case of an Event of Default arising from certain events of bankruptcy or insolvency, with respect to CCA, or any Restricted Subsidiary that is a Significant Subsidiary or any group of Subsidiaries that, taken together, would constitute a Significant Subsidiary, all outstanding Notes will become due and payable immediately without further action or notice. If any other Event of Default occurs and is continuing, the trustee or the Holders of at least 25% in principal amount of the then outstanding Notes may declare all the Notes to be due and payable immediately.

Holders of the Notes may not enforce the Indenture or the Notes except as provided in the Indenture. Subject to certain limitations, Holders of a majority in principal amount of the then outstanding Notes may direct the trustee in its exercise of any trust or power. The trustee may withhold from Holders of the Notes notice of any continuing Default or Event of Default if it determines that withholding Notes is in their interest, except a Default or Event of Default relating to the payment of principal or interest.

The Holders of a majority in aggregate principal amount of the Notes then outstanding by notice to the trustee may on behalf of the Holders of all of the Notes waive any existing Default or Event of Default and its consequences under the Indenture except a continuing Default or Event of Default in the payment of interest on, or the principal of, the Notes.

CCA is required to deliver to the trustee annually a written statement regarding compliance with the Indenture. Upon becoming aware of any Default or Event of Default, CCA is required to deliver to the trustee a written statement specifying such Default or Event of Default.

### **No Personal Liability of Directors, Officers, Employees and Stockholders**

No director, officer, employee, incorporator or stockholder of CCA or any Guarantor, as such, will have any liability for any obligations of CCA or the Guarantors under the Notes, the Indenture, the Subsidiary Guarantees or for any claim based on, in respect of, or by reason of, such obligations or their creation. Each Holder of Notes by accepting a Note waives and releases all such liability. The waiver and release are part of the consideration for issuance of the Notes. The waiver may not be effective to waive liabilities under the federal securities laws.

### **Legal Defeasance and Covenant Defeasance**

CCA may, at its option and at any time, elect to have all of its obligations discharged with respect to the outstanding Notes and all obligations of the Guarantors discharged with respect to their Subsidiary Guarantees ( Legal Defeasance ) except for:

- (1) the rights of Holders of outstanding Notes to receive payments in respect of the principal of, or interest or premium, if any, on such Notes when such payments are due from the trust referred to below;
- (2) CCA's obligations with respect to the Notes concerning issuing temporary Notes, registration of Notes, mutilated, destroyed, lost or stolen Notes and the maintenance of an office or agency for payment and money for security payments held in trust;
- (3) the rights, powers, trusts, duties and immunities of the trustee, and CCA's and the Guarantor's obligations in connection therewith; and
- (4) the Legal Defeasance provisions of the Indenture.

In addition, CCA may, at its option and at any time, elect to have the obligations of CCA and the Guarantors released with respect to certain covenants that are described in the Indenture ( Covenant

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Defeasance ) and thereafter any omission to comply with those covenants will not constitute a Default or Event of Default with respect to the Notes. In the event Covenant Defeasance occurs, certain events (not including non-payment, bankruptcy, receivership, rehabilitation and insolvency events) described below under the caption Events of Default and Remedies will no longer constitute an Event of Default with respect to the Notes.

In order to exercise either Legal Defeasance or Covenant Defeasance:

(1) CCA must irrevocably deposit with the trustee, in trust, for the benefit of the Holders of the Notes, cash in U.S. dollars, non-callable Government Securities, or a combination of cash in U.S. dollars and non-callable Government Securities, in amounts as will be sufficient, in the opinion of a nationally recognized firm of independent public accountants, to pay the principal of, or interest and premium, if any, on the outstanding Notes on the stated maturity or on the applicable redemption date, as the case may be, and CCA must specify whether the Notes are being defeased to maturity or to a particular redemption date;

(2) in the case of Legal Defeasance, CCA has delivered to the trustee an Opinion of Counsel reasonably acceptable to the trustee confirming that (a) CCA has received from, or there has been published by, the Internal Revenue Service a ruling or (b) since the Issue Date, there has been a change in the applicable federal income tax law, in either case to the effect that, and based thereon such Opinion of Counsel will confirm that, the Holders of the outstanding Notes will not recognize income, gain or loss for federal income tax purposes as a result of such Legal Defeasance and will be subject to federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such Legal Defeasance had not occurred;

(3) in the case of Covenant Defeasance, CCA has delivered to the trustee an Opinion of Counsel reasonably acceptable to the trustee confirming that the Holders of the outstanding Notes will not recognize income, gain or loss for federal income tax purposes as a result of such Covenant Defeasance and will be subject to federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such Covenant Defeasance had not occurred;

(4) no Default or Event of Default has occurred and is continuing on the date of such deposit (other than a Default or Event of Default resulting from the borrowing of funds to be applied to such deposit);

(5) such Legal Defeasance or Covenant Defeasance will not result in a breach or violation of, or constitute a default under any material agreement or instrument (other than the Indenture) to which CCA or any of its Subsidiaries is a party or by which CCA or any of its Subsidiaries is bound;

(6) CCA must deliver to the trustee an Officers Certificate stating that the deposit was not made by CCA with the intent of preferring the Holders of Notes over the other creditors of CCA or with the intent of defeating, hindering, delaying or defrauding creditors of CCA or others; and

(7) CCA must deliver to the trustee an Officers Certificate and an Opinion of Counsel, each stating that all conditions precedent relating to the Legal Defeasance or the Covenant Defeasance have been complied with.

### **Amendment, Supplement and Waiver**

Except as provided in the next two succeeding paragraphs, the Indenture or the Notes may be amended or supplemented with the consent of the Holders of at least a majority in principal amount of the Notes then outstanding (including, without limitation, consents obtained in connection with a purchase of or tender offer for the Notes), and any existing default or compliance with any provision of the Indenture or the Notes may be waived with the consent of the Holders of a majority in principal amount of the then outstanding Notes (including, without limitation, consents obtained in connection with a purchase of or tender offer for the Notes).

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Without the consent of each Holder affected, an amendment or waiver may not (with respect to any Notes held by a non-consenting Holder):

- (1) reduce the principal amount of Notes whose Holders must consent to an amendment, supplement or waiver;
- (2) reduce the principal of or change the fixed maturity of any Note or alter the provisions with respect to the redemption of the Notes (other than provisions relating to the covenants described above under the caption "Repurchase at the Option of Holders");
- (3) reduce the rate of or change the time for payment of interest on any Note;
- (4) waive a Default or Event of Default in the payment of principal of, or interest or premium, if any, on the Notes (except a rescission of acceleration of the Notes by the Holders of at least a majority in aggregate principal amount of the Notes and a waiver of the payment default that resulted from such acceleration);
- (5) make any Note payable in currency other than that stated in the Notes;
- (6) make any change in the provisions of the Indenture relating to waivers of past Defaults or the rights of Holders of Notes to receive payments of principal of, or interest or premium, if any, on the Notes;
- (7) waive a redemption payment with respect to any Note (other than a payment required by one of the covenants described above under the caption "Repurchase at the Option of Holders");
- (8) release any Guarantor from any of its obligations under its Subsidiary Guarantee or the Indenture, except in accordance with the terms of the Indenture; or
- (9) make any change in the preceding amendment and waiver provisions.

Notwithstanding the preceding, without the consent of any Holder of Notes, CCA, the Guarantors and the trustee may amend or supplement the Indenture or the Notes:

- (1) to cure any ambiguity, defect or inconsistency;
- (2) to provide for uncertificated Notes in addition to or in place of certificated Notes;
- (3) to provide for the assumption of CCA's obligations to Holders of Notes in the case of a merger or consolidation or sale of all or substantially all of CCA's assets;
- (4) to make any change that would provide any additional rights or benefits to the Holders of Notes or that does not adversely affect the legal rights under the Indenture of any such Holder;
- (5) to comply with requirements of the Commission in order to effect or maintain the qualification of the Indenture under the Trust Indenture Act; or
- (6) to conform the text of the Indenture, the Subsidiary Guarantees or the Notes to any provision of this Description of Notes to the extent that such provision in this Description of Notes was intended to be a verbatim recitation of a provision of the Indenture, the Subsidiary Guarantees or the Notes.

**Satisfaction and Discharge**

The Indenture will be discharged and will cease to be of further effect as to all Notes issued thereunder, when:

(1) either:

- (a) all Notes that have been authenticated, except lost, stolen or destroyed Notes that have been replaced or paid and Notes for whose payment money has been deposited in trust and thereafter repaid to CCA, have been delivered to the trustee for cancellation; or

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- (b) all Notes that have not been delivered to the trustee for cancellation have become due and payable by reason of the mailing of a notice of redemption or otherwise or will become due and payable within one year, and CCA or any Guarantor has irrevocably deposited or caused to be deposited with the trustee as trust funds in trust solely for the benefit of the Holders, cash in U.S. dollars, non-callable Government Securities, or a combination of cash in U.S. dollars and non-callable Government Securities, in amounts as will be sufficient without consideration of any reinvestment of interest to pay and discharge the entire indebtedness on the Notes not delivered to the trustee for cancellation for principal, premium, if any, and accrued interest to the date of maturity or redemption;
- (2) no Default or Event of Default has occurred and is continuing on the date of the deposit or will occur as a result of the deposit and the deposit will not result in a breach or violation of, or constitute a default under, any other instrument to which CCA or any Guarantor is a party or by which CCA or any Guarantor is bound;
- (3) CCA or any Guarantor has paid or caused to be paid all sums payable by it under the Indenture; and
- (4) CCA has delivered irrevocable instructions to the trustee under the Indenture to apply the deposited money toward the payment of the Notes at maturity or the redemption date, as the case may be.

In addition, CCA must deliver an Officers Certificate and an Opinion of Counsel to the trustee stating that all conditions precedent to satisfaction and discharge have been satisfied.

**Concerning the Trustee**

If the trustee becomes a creditor of CCA or any Guarantor, the Indenture limits its right to obtain payment of claims in certain cases, or to realize on certain property received in respect of any such claim as security or otherwise. The trustee will be permitted to engage in other transactions; however, if it acquires any conflicting interest, as described in the Trust Indenture Act, it must eliminate such conflict within 90 days, apply to the Commission for permission to continue or resign.

The Holders of a majority in principal amount of the then outstanding Notes will have the right to direct the time, method and place of conducting any proceeding for exercising any remedy available to the trustee, subject to certain exceptions. The Indenture provides that in case an Event of Default occurs and is continuing, the trustee will be required, in the exercise of its power, to use the degree of care of a prudent man in the conduct of his own affairs. Subject to such provisions, the trustee will be under no obligation to exercise any of its rights or powers under the Indenture at the request of any Holder of Notes, unless such Holder has offered to the trustee security and indemnity satisfactory to it against any loss, liability or expense.

**Book-Entry, Delivery and Form**

The Notes will be issued in the form of one or more Global Notes (the Global Notes ). The Global Notes will be deposited on the Issue Date with, or on behalf of, The Depository Trust Company ( DTC ) and registered in the name of Cede & Co., as nominee of DTC (such nominee being referred to herein as the Global Note Holder ). Except as set forth below, Notes will be issued in registered, global form in minimum denominations of \$1,000 and integral multiples of \$1,000.

Except as set forth below, the Global Notes may be transferred, in whole and not in part, only to another nominee of DTC or to a successor of DTC or its nominee. Beneficial interests in the Global Notes may not be exchanged for notes in certificated form except in the limited circumstances described below. See Exchange of Global Notes for Certificated Notes. In addition, transfers of beneficial interests in the Global Notes will be subject to the applicable rules and procedures of DTC and its direct or indirect participants (including, if applicable, those of Euroclear and Clearstream), which may change from time to time.

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Prospective purchasers are advised that the laws of some states require that certain persons take physical delivery in definitive form of securities that they own. Consequently, the ability to transfer beneficial interests in a Global Note to such persons will be limited to such extent.

So long as the Global Note Holder is the registered owner of any Notes, the Global Note Holder will be considered the sole Holder under the Indenture of any Notes evidenced by the Global Notes. Beneficial owners of Notes evidenced by the Global Notes will not be considered the owners or Holders of the Notes under the Indenture for any purpose, including with respect to the giving of any directions, instructions or approvals to the trustee thereunder. Neither CCA nor the trustee will have any responsibility or liability for any aspect of the records of DTC or for maintaining, supervising or reviewing any records of DTC relating to the Notes.

### **Depository Procedures**

The following description of the operations and procedures of DTC, Euroclear and Clearstream are provided solely as a matter of convenience. These operations and procedures are solely within the control of their respective settlement systems and are subject to changes by them. CCA takes no responsibility for these operations and procedures and urges investors to contact the systems or their participants directly to discuss these matters.

DTC is a limited-purpose trust company organized under the New York Banking Law, a banking organization within the meaning of the New York Banking Law, a member of the Federal Reserve System, a clearing corporation within the meaning of the New York Uniform Commercial Code, and a clearing agency registered pursuant to the provisions of Section 17A of the Exchange Act. DTC holds securities that its participants ( Direct Participants ) deposit with DTC. DTC also facilitates the settlements among Direct Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized/book-entry changes to Direct Participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants of the DTC include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc., and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as securities brokers and dealers, banks, and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ( Indirect Participants ). The rules applicable to the DTC and its Direct and Indirect Participants are on file with the Securities and Exchange Commission (the Commission ).

Purchases of Notes under DTC's system must be made by or through Direct Participants, which will receive a credit for such Notes on DTC's records. The ownership interest of each Beneficial Owner is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participants through which such Beneficial Owner entered into the transaction. Transfers of ownership interests in the Global Notes representing the Notes are to be accomplished by entries made on the books of Direct and/or Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners of the Notes will not receive certificated Notes representing their ownership interests therein, except in the event that use of the book-entry system for such Notes is discontinued.

To facilitate subsequent transfers, all Global Notes representing the Notes which are deposited with, or on behalf of, the Depository are registered in the name of DTC's partnership nominee, Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of Global Notes with, or on behalf of, DTC and their registration in the name of Cede & Co. or such other nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Global Notes representing the Notes. DTC's records reflect only the identity of the Direct Participants to whose accounts such Notes are credited, which may or may not be the Beneficial Owners.



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The Direct Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Global Notes representing the Notes. Under its usual procedure, the Depository mails an omnibus proxy to CCA as soon as possible after the applicable record date. The omnibus proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Notes are credited on the applicable record date (identified in a listing attached to the omnibus proxy).

Payment of principal, premium, if any, and interest, on the Global Notes representing the Notes will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from CCA or the trustee on the payment date in accordance with their respective holdings shown on the DTC's records. Payments by Direct Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers registered in street name, and will be the responsibility of such Direct Participants and not of DTC, the trustee or CCA, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, premium, if any, and/or interest, if any, to DTC is the responsibility of CCA or the trustee, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Notes at any time by giving reasonable notice to CCA or the trustee. Under such circumstances, in the event that a successor securities depository is not obtained, certificated Notes are required to be printed and delivered.

CCA may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, certificated Notes will be printed and delivered.

The information in this section concerning DTC and the DTC's system has been obtained from sources that CCA believes to be reliable, but CCA takes no responsibility for the accuracy thereof.

### **Exchange of Global Notes for Certificated Notes**

A Global Note is exchangeable for definitive Notes in registered certificated form (Certificated Notes) if:

- (1) DTC (a) notifies CCA that it is unwilling or unable to continue as depository for the Global Notes and CCA fails to appoint a successor depository or (b) has ceased to be a clearing agency registered under the Exchange Act;
- (2) CCA, at its option, notifies the trustee in writing that it elects to cause the issuance of the Certificated Notes; or
- (3) there has occurred and is continuing a Default or Event of Default with respect to the Notes.

In addition, beneficial interests in a Global Note may be exchanged for Certificated Notes upon prior written notice given to the trustee by or on behalf of DTC in accordance with the Indenture. In all cases, Certificated Notes delivered in exchange for any Global Note or beneficial interests in Global Notes will be registered in the names, and issued in any approved denominations, requested by or on behalf of the depository (in accordance with its customary procedures).

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Neither CCA nor the trustee will be liable for any delay by the Global Note Holder or DTC in identifying the beneficial owners of Notes and CCA and the trustee may conclusively rely on, and will be protected in relying on, instructions from the Global Note Holder or DTC for all purposes.

### **Exchange of Certificated Notes for Global Notes**

Certificated Notes may not be exchanged for beneficial interests in any Global Note unless the transferor first delivers to the trustee a written certificate (in the form provided in the Indenture) to the effect that such transfer will comply with any appropriate transfer restrictions applicable to such Notes.

### **Same Day Settlement and Payment**

We will make payments in respect of the Notes represented by the Global Notes (including principal, interest and premium, if any) by wire transfer of immediately available funds to the accounts specified by the Global Note Holder. We will make all payments of principal, interest and premium, if any, with respect to certificated Notes by wire transfer of immediately available funds to the accounts specified by the Holders of certificated Notes or, at our option, at the office or agency of the paying agent and registrar within the City and State of New York unless we elect to make interest payments by mailing a check to each such Holder's registered address. The Notes represented by the Global Notes are expected to trade in DTC's Same-Day Funds Settlement System, and any permitted secondary market trading activity in such Notes will, therefore, be required by DTC to be settled in immediately available funds.

### **Additional Information**

Anyone who receives this prospectus supplement may obtain a copy of the Base Indenture and Supplemental Indenture without charge by writing to CCA's Investor Relations Department at 10 Burton Hills Boulevard, Nashville, Tennessee 37215.

### **Certain Definitions**

Set forth below are certain defined terms used in the Indenture. Reference is made to the Indenture for a full disclosure of all such terms, as well as any other capitalized terms used herein for which no definition is provided.

*Acquired Debt* means, with respect to any specified Person:

- (1) Indebtedness of any other Person existing at the time such other Person is merged with or into or became a Subsidiary of such specified Person, whether or not such Indebtedness is incurred in connection with, or in contemplation of, such other Person merging with or into, or becoming a Subsidiary of, such specified Person; and
- (2) Indebtedness secured by a Lien encumbering any asset acquired by such specified Person.

*Affiliate* of any specified Person means any other Person directly or indirectly controlling or controlled by or under direct or indirect common control with such specified Person. For purposes of this definition, control, as used with respect to any Person, means the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of such Person, whether through the ownership of voting securities, by agreement or otherwise; provided that beneficial ownership of 10% or more of the Voting Stock of a Person will be deemed to be control. For purposes of this definition, the terms controlling, controlled by and under common control with have correlative meanings.

*Amended and Restated Charter* means the Amended and Restated Charter of CCA adopted on September 29, 2000 as amended by that certain Amendment to Amended and Restated Charter dated May 15, 2001.

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*Asset Sale* means:

- (1) the sale, lease, conveyance or other disposition of any assets or rights of CCA and/or any Restricted Subsidiary, other than sales of inventory in the ordinary course of business consistent with past practices; provided that the sale, conveyance or other disposition of all or substantially all of the assets of CCA and its Restricted Subsidiaries taken as a whole will be governed by the provisions of the Indenture described above under the caption *Repurchase at the Option of Holders* *Change of Control* and/or the provisions described above under the caption *Certain Covenants* *Merger, Consolidation or Sale of Assets* and not by the provisions of the Asset Sale covenant; and
  - (2) the issuance of Equity Interests in any of CCA's Restricted Subsidiaries or the sale of Equity Interests in any of its Subsidiaries.
- Notwithstanding the preceding, the following items will not be deemed to be Asset Sales:

- (1) any single transaction or series of related transactions that involves the sale of assets or the issuance or sale of Equity Interests of a Restricted Subsidiary having a fair market value of less than \$5.0 million;
- (2) a transfer of assets between or among CCA and its Restricted Subsidiaries;
- (3) an issuance of Equity Interests by a Restricted Subsidiary to CCA or to another Restricted Subsidiary;
- (4) the sale or lease of equipment, inventory, accounts receivable or other assets in the ordinary course of business;
- (5) the sale or other disposition of cash or Cash Equivalents; and
- (6) a Restricted Payment or Permitted Investment that is permitted by the covenant described above under the caption *Certain Covenants* *Restricted Payments*.

*Asset Swap* means an exchange of assets other than cash, Cash Equivalents or Equity Interests of CCA or any Subsidiary by CCA or a Restricted Subsidiary of CCA for:

- (1) one or more Permitted Businesses;
- (2) a controlling equity interest in any Person whose assets consist primarily of one or more Permitted Businesses; and/or
- (3) one or more real estate properties.

*Attributable Debt* in respect of a Sale and Leaseback Transaction means, at the time of determination, the present value of the obligation of the lessee for net rental payments during the remaining term of the lease included in such Sale and Leaseback Transaction including any period for which such lease has been extended or may, at the option of the lessor, be extended. Such present value shall be calculated using a discount rate equal to the rate of interest implicit in such transaction, determined in accordance with GAAP.

*Beneficial Owner* has the meaning assigned to such term in Rule 13d-3 and Rule 13d-5 under the Exchange Act, except that in calculating the beneficial ownership of any particular person (as that term is used in Section 13(d)(3) of the Exchange Act), such person will be deemed to have beneficial ownership of all securities that such person has the right to acquire by conversion or exercise of other securities, whether such right is currently exercisable or is exercisable only upon the occurrence of a subsequent condition. The terms *Beneficially Owns* and *Beneficially Owned* have a corresponding meaning.

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*Board of Directors* means:

- (1) with respect to a corporation, the board of directors of the corporation;
- (2) with respect to a partnership, the board of directors of the general partner of the partnership; and
- (3) with respect to any other Person, the board or committee of such Person serving a similar function.

*Capital Lease Obligation* means, at the time any determination is to be made, the amount of the liability in respect of a capital lease that would at that time be required to be capitalized on a balance sheet in accordance with GAAP.

*Capital Stock* means:

- (1) in the case of a corporation, corporate stock;
- (2) in the case of an association or business entity, any and all shares, interests, participations, rights or other equivalents (however designated) of corporate stock;
- (3) in the case of a partnership or limited liability company, partnership or membership interests (whether general or limited); and
- (4) any other interest or participation that confers on a Person the right to receive a share of the profits and losses of, or distributions of assets of, the issuing Person.

*Cash Equivalents* means:

- (1) United States dollars;
- (2) securities issued or directly and fully guaranteed or insured by the United States government or any agency or instrumentality of the United States government (provided that the full faith and credit of the United States is pledged in support of those securities) ( Government Securities ) having maturities of not more than one year from the date of acquisition;
- (3) certificates of deposit and eurodollar time deposits with maturities of six months or less from the date of acquisition, bankers acceptances with maturities not exceeding one year and overnight bank deposits, in each case, with any lender party to the Credit Agreement or with any domestic commercial bank having capital and surplus in excess of \$500.0 million and a Thomson Bank Watch Rating of B or better;
- (4) repurchase obligations with a term of not more than seven days for underlying securities of the types described in clauses (2) and (3) above entered into with any financial institution meeting the qualifications specified in clause (3) above;
- (5) commercial paper having the highest rating obtainable from Moody's Investors Service, Inc. or Standard & Poor's Rating Services and in each case maturing within one year after the date of acquisition; and
- (6) money market funds at least 95% of the assets of which constitute Cash Equivalents of the kinds described in clauses (1) through (5) of this definition.

*Change of Control* means the occurrence of any of the following:

- (1) the direct or indirect sale, transfer, conveyance or other disposition (other than by way of merger or consolidation), in one or a series of related transactions, of all or substantially all of the properties or assets of CCA and its Restricted Subsidiaries, taken as a whole, to any person (as that term is used in Section 13(d)(3) of the Exchange Act);

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- (2) the approval by the holders of the Voting Stock of CCA of a plan relating to the liquidation or dissolution of CCA or if no such approval is required the adoption of a plan relating to the liquidation or dissolution of CCA by its Board of Directors;
- (3) the consummation of any transaction (including without limitation any merger or consolidation) the result of which is that any person (as that term is used in Section 13(d)(3) of the Exchange Act) becomes the Beneficial Owner, directly or indirectly, of more than 50% of the Voting Stock of CCA;
- (4) CCA consolidates with, or merges with or into, any Person, or any Person consolidated with, or merger with or into, CCA, in any such event pursuant to a transaction in which any of the outstanding Voting Stock of CCA or such other Person is converted into or exchanged for cash, securities or other property, other than any such transaction where the Voting Stock of CCA outstanding immediately prior to such transaction is converted into or exchanged for Voting Stock (other than Disqualified Stock) of the surviving or transferee Person constituting a 45% or more of the outstanding shares of such Voting Stock of such surviving or transferee Person (immediately after giving effect to such issuance); or
- (5) the first day on which a majority of the members of the Board of Directors of CCA are not Continuing Directors.

*Consolidated Cash Flow* means, with respect to any specified Person for any period, the Consolidated Net Income of such Person for such period plus:

(1) an amount equal to any extraordinary loss plus any net loss realized by such Person or any of its Restricted Subsidiaries in connection with an Asset Sale, to the extent such losses were deducted in computing such Consolidated Net Income; *plus*

(2) provision for taxes based on income or profits of such Person and its Restricted Subsidiaries for such period, to the extent that such provision for taxes was deducted in computing such Consolidated Net Income; *plus*

(3) consolidated interest expense of such Person and its Restricted Subsidiaries for such period, whether paid or accrued and whether or not capitalized (including, without limitation, amortization of debt issuance costs and original issue discount, non-cash interest payments, the interest component of any deferred payment obligations, the interest component of all payments associated with Capital Lease Obligations, imputed interest with respect to Attributable Debt, commissions, discounts and other fees and charges incurred in respect of letter of credit or bankers acceptance financings, and net of the effect of all payments made or received pursuant to Hedging Obligations), to the extent that any such expense was deducted in computing such Consolidated Net Income; *plus*

(4) depreciation, amortization (including amortization of intangibles but excluding amortization of prepaid cash expenses that were paid in a prior period) and other non-cash expenses (excluding any such non-cash expense to the extent that it represents an accrual of or reserve for cash expenses in any future period or amortization of a prepaid cash expense that was paid in a prior period) of such Person and its Restricted Subsidiaries for such period to the extent that such depreciation, amortization and other non-cash expenses were deducted in computing such Consolidated Net Income; *minus*

(5) non-cash items increasing such Consolidated Net Income for such period, other than the accrual of revenue in the ordinary course of business, in each case, on a consolidated basis and determined in accordance with GAAP.

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*Consolidated Net Income* means, with respect to any specified Person for any period, the aggregate of the Net Income of such Person and its Restricted Subsidiaries for such period, on a consolidated basis, determined in accordance with GAAP; provided that:

(1) the Net Income (but not loss) of any Person that is not a Restricted Subsidiary or that is accounted for by the equity method of accounting will be included only to the extent of the amount of dividends or distributions paid in cash to the specified Person or Restricted Subsidiary of the Person;

(2) the Net Income of any Restricted Subsidiary will be excluded to the extent that the declaration or payment of dividends or similar distributions by that Restricted Subsidiary of that Net Income is not at the date of determination permitted without any prior governmental approval (that has not been obtained) or, directly or indirectly, by operation of the terms of its charter or any agreement, instrument, judgment, decree, order, statute, rule or governmental regulation applicable to that Restricted Subsidiary or its stockholders;

(3) the Net Income of any Person acquired in a pooling of interests transaction for any period prior to the date of such acquisition will be excluded;

(4) the cumulative effect of a change in accounting principles will be excluded; and

(5) the Net Income or loss of any Unrestricted Subsidiary will be excluded, whether or not distributed to the specified Person or one of its Subsidiaries.

*Consolidated Net Income After Preferred Cash Dividend* means the difference between the Consolidated Net Income of CCA and the aggregate amount of payment of any cash dividends to the holders of CCA's series A preferred stock or series B preferred stock.

*Continuing Directors* means, as of any date of determination, any member of the Board of Directors of CCA who:

(1) was a member of such Board of Directors on the Issue Date; or

(2) was nominated for election or elected to such Board of Directors with the approval of a majority of the Continuing Directors who were members of such Board at the time of such nomination or election.

*Credit Agreement* means that certain Third Amended and Restated Credit Agreement, by and among CCA and Lehman Commercial Paper, Inc., and other parties thereto, as amended by that certain First Amendment and Consent to Third Amended and Restated Credit Agreement, dated December 27, 2002, and that certain Second Amendment and Waiver to Third Amended and Restated Credit Agreement, dated April , 2003, including any related notes, guarantees, collateral documents, instruments and agreements executed in connection therewith, and in each case as amended, (and/or amended and restated) modified, renewed, refunded, replaced or refinanced from time to time, in whole or in part, with the same or different lenders (including, without limitation, any amendment, amendment and restatement, modification, renewal, refunding, replacement or refinancing that increases the maximum amount of the loans made or to be made thereunder).

*Credit Facilities* means, one or more debt facilities (including, without limitation, the Credit Agreement) or commercial paper facilities, in each case with banks or other institutional lenders providing for revolving credit loans, term loans, receivables financing (including through the sale of receivables to such lenders or to special purpose entities formed to borrow from such lenders against such receivables) or letters of credit, in each case, as amended, (and/or amended and restated) restated, modified, renewed, refunded, replaced or refinanced in whole or in part from time to time.

*Default* means any event that is, or with the passage of time or the giving of notice or both would be, an Event of Default.

*Designated Assets* means those correctional facilities owned by CCA that are located in San Diego, California; Walsenburg, Colorado; Nichols, Georgia; Alamo, Georgia; Tutweiler, Mississippi; Shelby, Montana; Cushing, Oklahoma; Holdenville, Oklahoma; Memphis, Tennessee; Washington, DC; and

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Whiteville, Tennessee in each case so long as, and to the extent that, CCA or a Restricted Subsidiary has granted an option to purchase such facility (or provided for the reversion of CCA's ownership interest in all or a portion of such facility) pursuant to a Designated Asset Contract.

*Designated Asset Contract* means each of the following contracts pursuant to which CCA has granted (a) an option to purchase a Designated Asset for the Designated Asset Value or (b) a right of reversion of all or a portion of CCA's ownership in such Designated Assets, in each case as in effect on the Issue Date: Standard Form Lease Agreement, East Mesa Detention Facility, dated October 30, 1997, between the County of San Diego and CCA; Lease Agreement, dated April 30, 1996, between Huerfano County and CCA; Request for Proposal Number 0467-019-955259 Issues on Behalf of the Georgia Department of Corrections re: Bid of Private Prisons in Coffee and Wheeler Counties; Contract No. 467-019-955259-1, dated July 24, 1996, between the Georgia Department of Corrections and CCA; Contract No. 467-019-955259-2, dated July 24, 1996, between the Georgia Department of Corrections and CCA; Agreement, dated October 6, 1998, between the Tallahatchie County Correctional Authority and CCA, as amended by that certain Amendment No. 1 to Agreement dated May 18, 2000, between the Tallahatchie County Correctional Authority and CCA; Contract for Facility Development Design, Build, dated July 22, 1998, between the Montana Department of Corrections and CCA; Contractual Agreement, dated July 1, 1997, between the State of Oklahoma Department of Corrections and CCA; Correctional Services Contract, dated July 1, 1998, between the State of Oklahoma Department of Corrections and CCA; Lease Agreement, dated April 15, 1985, between the County of Shelby and CCA; Contract, dated February 25, 1986, between the Tennessee Department of Finance and Administration and CCA; Lease Agreement, dated January 1997, between the District of Columbia and CCA; and Incarceration Agreement, dated October 23, 2002, between the State of Tennessee, Department of Correction and Hardeman County, Tennessee and the related Contract for the Lease of Whiteville Correctional Facility, dated October 9, 2002, between Hardeman County, Tennessee and CCA.

*Designated Asset Value* means the aggregate consideration specified in a Designated Asset Contract to be received by CCA upon the exercise of an option to acquire a Designated Asset pursuant to the terms of a Designated Asset Contract.

*Disqualified Stock* means any Capital Stock that, by its terms (or by the terms of any security into which it is convertible, or for which it is exchangeable, in each case at the option of the holder of the Capital Stock), or upon the happening of any event, matures or is mandatorily redeemable, pursuant to a sinking fund obligation or otherwise, or redeemable at the option of the holder of the Capital Stock, in whole or in part, on or prior to the date that is 91 days after the date on which the Notes mature. Notwithstanding the preceding sentence, any Capital Stock that would constitute Disqualified Stock solely because the holders of the Capital Stock have the right to require CCA to repurchase such Capital Stock upon the occurrence of a change of control or an asset sale will not constitute Disqualified Stock if the terms of such Capital Stock provide that CCA may not repurchase or redeem any such Capital Stock pursuant to such provisions unless such repurchase or redemption complies with the covenant described above under the caption Certain Covenants Restricted Payments.

*Domestic Subsidiary* means any Restricted Subsidiary of CCA that was formed under the laws of the United States or any state of the United States (but not the laws of Puerto Rico) or the District of Columbia or that guarantees or otherwise provides direct credit support for any Indebtedness of CCA.

*Equity Interests* means Capital Stock and all warrants, options or other rights to acquire Capital Stock (but excluding any debt security that is convertible into, or exchangeable for, Capital Stock).

*Existing Indebtedness* means the Indebtedness of CCA and its Restricted Subsidiaries (other than Indebtedness under the Credit Agreement) in existence on the Issue Date, until such amounts are repaid.

*Equity Offering* means an offering by a Person of its shares of Equity Interests (other than Disqualified Stock) however designated and whether voting or non-voting, and any and all rights, warrants or options to acquire such Equity Interests (other than Disqualified Stock).

*Event of Default* means any event that is described under the caption Events of Defaults and Remedies.

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*Fixed Charges* means, with respect to any specified Person for any period, the sum, without duplication, of:

(1) the consolidated interest expense of such Person and its Restricted Subsidiaries for such period, whether paid or accrued, including, without limitation, the interest component of any deferred payment obligations, the interest component of all payments associated with Capital Lease Obligations, imputed interest with respect to Attributable Debt, commissions, discounts and other fees and charges incurred in respect of letters of credit or bankers acceptance financings, and net of the effect of all payments made or received pursuant to Hedging Obligations, but excluding amortization of debt issuance costs and original issue discount and other non-cash interest payments; plus

(2) the consolidated interest of such Person and its Restricted Subsidiaries that was capitalized during such period; plus

(3) any interest expense on Indebtedness of another Person that is Guaranteed by such Person or one of its Restricted Subsidiaries or secured by a Lien on assets of such Person or one of its Restricted Subsidiaries, whether or not such Guarantee or Lien is called upon; plus

(4) the product of (a) all dividends, whether paid or accrued and whether or not in cash, on any series of preferred stock of such Person or any of its Restricted Subsidiaries, other than (i) dividends on Equity Interests payable in Equity Interests of CCA (other than Disqualified Stock), (ii) dividends to CCA or a Restricted Subsidiary of CCA, or (iii) up to \$10,750,000 paid on January 15, 2002 as accrued but unpaid dividends in arrears on shares of CCA's Series A Preferred Stock, times (b) a fraction, the numerator of which is one and the denominator of which is one minus the then current combined federal, state and local effective cash tax rate of such Person, expressed as a decimal, in each case, on a consolidated basis and in accordance with GAAP.

*Fixed Charge Coverage Ratio* means with respect to any specified Person for any period, the ratio of the Consolidated Cash Flow of such Person for such period to the Fixed Charges of such Person for such period. In the event that the specified Person or any of its Restricted Subsidiaries incurs, assumes, Guarantees, repays, repurchases or redeems any Indebtedness (other than ordinary working capital borrowings) or issues, repurchases or redeems preferred stock subsequent to the commencement of the period for which the Fixed Charge Coverage Ratio is being calculated and on or prior to the date on which the event for which the calculation of the Fixed Charge Coverage Ratio is made (the Calculation Date), then the Fixed Charge Coverage Ratio will be calculated giving pro forma effect to such incurrence, assumption, Guarantee, repayment, repurchase or redemption of Indebtedness, or such issuance, repurchase or redemption of preferred stock, and the use of the proceeds therefrom as if the same had occurred at the beginning of the applicable four-quarter reference period.

In addition, for purposes of calculating the Fixed Charge Coverage Ratio:

(1) acquisitions that have been made by the specified Person or any of its Restricted Subsidiaries, including through mergers or consolidations and including any related financing transactions, during the four-quarter reference period or subsequent to such reference period and on or prior to the Calculation Date will be given pro forma effect as if they had occurred on the first day of the four-quarter reference period and Consolidated Cash Flow for such reference period will be calculated on a pro forma basis in accordance with Regulation S-X under the Securities Act, but without giving effect to clause (3) of the proviso set forth in the definition of Consolidated Net Income;

(2) the Consolidated Cash Flow attributable to discontinued operations, as determined in accordance with GAAP, and operations or businesses disposed of prior to the Calculation Date, will be excluded; and

(3) the Fixed Charges attributable to discontinued operations, as determined in accordance with GAAP, and operations or businesses disposed of prior to the Calculation Date, will be excluded, but only to the extent that the obligations giving rise to such Fixed Charges will not be obligations of the specified Person or any of its Restricted Subsidiaries following the Calculation Date.



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*GAAP* means generally accepted accounting principles set forth in the opinions and pronouncements of the Accounting Principles Board of the American Institute of Certified Public Accountants and statements and pronouncements of the Financial Accounting Standards Board or in such other statements by such other entity as have been approved by a significant segment of the accounting profession as amended and/or modified from time to time.

*Guarantee* means a guarantee other than by endorsement of negotiable instruments for collection or deposit in the ordinary course of business, direct or indirect, in any manner including, without limitation, by way of a pledge of assets or through letters of credit or reimbursement agreements in respect thereof, of all or any part of any Indebtedness, but not any Indebtedness of CCA under the Forward Delivery Deficits Agreement, dated as of September 25, 1997, by and between CCA and First Union National Bank, as trustee, or under the Debt Service Deficits Agreement, dated as of January 1, 1997, by and between CCA and Hardeman County Correctional Facilities Corporation, each as in effect on the Issue Date, provided that and for so long as such Indebtedness is not required to be classified as debt of CCA or any Restricted Subsidiary pursuant to GAAP.

*Guarantors* means each of:

- (1) the Guarantors named under *Subsidiary Guarantees* above; and
- (2) any other subsidiary that executes a *Subsidiary Guarantee* in accordance with the provisions of the Indenture; and their respective successors and assigns.

*Hedging Obligations* means, with respect to any specified Person, the obligations of such Person under:

- (1) interest rate swap agreements, interest rate cap agreements and interest rate collar agreements; and
- (2) other agreements or arrangements designed to protect such Person against fluctuations in interest rates.

*Indebtedness* means, with respect to any specified Person, any indebtedness of such Person, whether or not contingent:

- (1) in respect of borrowed money;
- (2) evidenced by bonds, notes, debentures or similar instruments or letters of credit (or reimbursement agreements in respect thereof);
- (3) in respect of banker's acceptances;
- (4) representing Capital Lease Obligations;
- (5) representing the balance deferred and unpaid of the purchase price of any property, except any such balance that constitutes an accrued expense or trade payable; or
- (6) representing any Hedging Obligations,

if and to the extent any of the preceding items (other than letters of credit and Hedging Obligations) would appear as a liability upon a balance sheet of the specified Person prepared in accordance with GAAP. In addition, the term *Indebtedness* includes all Indebtedness of others secured by a Lien on any asset of the specified Person (whether or not such Indebtedness is assumed by the specified Person) and, to the extent not otherwise included, the Guarantee by the specified Person of any indebtedness of any other Person.

The amount of any Indebtedness outstanding as of any date will be:

- (1) the accreted value of the Indebtedness, in the case of any Indebtedness issued with original issue discount;

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- (2) the principal amount of the Indebtedness, together with any interest on the Indebtedness that is more than 30 days past due, in the case of any other Indebtedness; and
- (3) with respect to Hedging Obligations, the amount of Indebtedness required to be recorded as a liability in accordance with GAAP.

*Investments* means, with respect to any Person, all direct or indirect investments by such Person in other Persons (including Affiliates) in the forms of loans (including Guarantees or other obligations), advances or capital contributions (excluding commission, travel and similar advances to officers and employees made in the ordinary course of business), purchases or other acquisitions for consideration of Indebtedness, Equity Interests or other securities, together with all items that are or would be classified as investments on a balance sheet prepared in accordance with GAAP and include the designation of a Restricted Subsidiary as an Unrestricted Subsidiary. If CCA or any Subsidiary of CCA sells or otherwise disposes of any Equity Interests of any direct or indirect Subsidiary of CCA such that, after giving effect to any such sale or disposition, such Person is no longer a Subsidiary of CCA, CCA will be deemed to have made an Investment on the date of any such sale or disposition equal to the fair market value of the Equity Interests of such Subsidiary not sold or disposed of in an amount determined as provided in the final paragraph of the covenant described above under the caption Certain Covenants Restricted Payments. The acquisition by CCA or any Subsidiary of CCA of a Person that holds an Investment in a third Person will be deemed to be an Investment by CCA or such Subsidiary in such third Person in an amount equal to the fair market value of the Investment held by the acquired Person in such third Person in an amount determined as provided in the final paragraph of the covenant described above under the caption Certain Covenants Restricted Payments.

*Issue Date* means the date on which the Notes are first issued by CCA.

*Lien* means, with respect to any asset, any mortgage, lien, pledge, charge, security interest or encumbrance of any kind in respect of such asset, whether or not filed, recorded or otherwise perfected under applicable law, including any conditional sale or other title retention agreement, any lease in the nature thereof, any option or other agreement to sell or give a security interest in and any filing of or agreement to give any financing statement under the Uniform Commercial Code (or equivalent statutes) of any jurisdiction.

*MDP Notes* means those certain 10.0% convertible subordinated notes due December 31, 2008 issued pursuant to that certain Note Purchase Agreement, dated as of December 31, 1998, as amended on June 30, 2000, between CCA, on the one hand, and MDP Ventures IV, LLC and certain affiliated purchasers, on the other hand.

*Net Income* means, with respect to any specified Person for any period, the net income (loss) of such Person, determined in accordance with GAAP and before any reduction in respect of preferred stock dividends, excluding, however:

- (1) any gain or loss, together with any related provision for taxes on such gain or loss, realized in connection with: (a) any Asset Sale; or (b) the disposition of any securities by such Person or any of its Restricted Subsidiaries or the extinguishment of any Indebtedness of such Person or any of its Restricted Subsidiaries;
- (2) any extraordinary gain or loss, together with any related provision for taxes on such extraordinary gain or loss;
- (3) any loss resulting from impairment of goodwill recorded on the consolidated financial statement of a Person pursuant to SFAS No. 142 Goodwill and Other Intangible Assets;
- (4) any loss resulting from the change in fair value of a derivative financial instrument pursuant to SFAS No. 133 Accounting for Derivative Instruments and Hedging Activities; and
- (5) amortization of debt issuance costs.

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*Net Proceeds* means the aggregate cash proceeds received by CCA or any of its Restricted Subsidiaries in respect of any Asset Sale (including, without limitation, any cash or Cash Equivalents received upon the sale or other disposition of any non-cash consideration received in any Asset Sale), net of the direct costs relating to such Asset Sale, including, without limitation, legal, accounting and investment banking fees, and sales commissions, and any relocation expenses incurred as a result of the Asset Sale, taxes paid or payable as a result of the Asset Sale, in each case, after taking into account any available tax credits or deductions and any tax sharing arrangements, and amounts required to be applied to the repayment of Indebtedness, other than Indebtedness under a Credit Facility, secured by a Lien on the asset or assets that were the subject of such Asset Sale and any reserve for adjustment in respect of the sale price of such asset or assets established in accordance with GAAP.

*Non-Recourse Debt* means Indebtedness:

- (1) as to which neither CCA nor any of its Restricted Subsidiaries (a) provides credit support of any kind (including any undertaking, agreement or instrument that would constitute Indebtedness), (b) is directly or indirectly liable as a guarantor or otherwise, or (c) constitutes the lender;
- (2) no default with respect to which (including any rights that the holders of the Indebtedness may have to take enforcement action against an Unrestricted Subsidiary) would permit upon notice, lapse of time or both any holder of any other Indebtedness of CCA or any of its Restricted Subsidiaries to declare a default on such other Indebtedness or cause the payment of the Indebtedness to be accelerated or payable prior to its stated maturity; and
- (3) as to which the lenders have been notified in writing that they will not have any recourse to the stock or assets of CCA or any of its Restricted Subsidiaries.

*Notes* means the \$250.0 million in aggregate principal amount of CCA's 7 1/2% senior notes, due 2011 issued pursuant to the Indenture and any other notes designated by CCA as the same series as such Senior Notes and issued under the Indenture.

*Obligations* means any principal, interest, penalties, fees, indemnifications, reimbursements, damages and other liabilities payable under the documentation governing any Indebtedness.

*Permitted Business* means the business conducted by CCA and its Restricted Subsidiaries on the Issue Date and businesses reasonably related thereto or ancillary or incidental thereto or a reasonable extension thereof, including the privatization of governmental services.

*Permitted Investments* means:

- (1) any Investment in CCA or in a Restricted Subsidiary of CCA that is a Guarantor;
- (2) any Investment in cash or Cash Equivalents;
- (3) any Investment by CCA or any Restricted Subsidiary of CCA in a Person, if as a result of such Investment:
  - (a) such Person becomes a Restricted Subsidiary of CCA and a Guarantor; or
  - (b) such Person is merged, consolidated or amalgamated with or into, or transfers or conveys substantially all of its assets to, or is liquidated into, CCA or any Restricted Subsidiary of CCA that is a Guarantor;
- (4) any Investment made as a result of the receipt of non-cash consideration from an Asset Sale that was made pursuant to and in compliance with the covenant described above under the caption *Repurchase at the Option of Holders - Asset Sales* ;
- (5) any acquisition of assets solely in exchange for the issuance of Equity Interests (other than Disqualified Stock) of CCA;

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- (6) any Investments received in compromise of obligations of such persons incurred in the ordinary course of trade creditors or customers that were incurred in the ordinary course of business, including pursuant to any plan of reorganization or similar arrangement upon the bankruptcy or insolvency of any trade creditor or customer;
- (7) Hedging Obligations;
- (8) other Investments in any other Person having an aggregate fair market value (measured on the date each such Investment was made and without giving effect to subsequent changes in value), when taken together with all other Investments made pursuant to this clause (8) not to exceed \$35.0 million;
- (9) payroll, travel and similar advances to cover matters that are expected at the time of such advances ultimately to be treated as expenses for accounting purposes and that are made in the ordinary course of business;
- (10) loans or advances to employees made in the ordinary course of business of CCA or any Restricted Subsidiary not to exceed \$5.0 million outstanding at any one time for all loans or advances under this clause (10);
- (11) stock, obligations or securities received in settlement of debts created in the ordinary course of business and owing to CCA or any Restricted Subsidiary or in satisfaction of judgments or pursuant to any plan of reorganization or similar arrangement upon the bankruptcy or insolvency of a debtor;
- (12) Investments in existence on the Issue Date;
- (13) Guarantees issued in accordance with the covenant described above under the caption *Certain Covenants Incurrence of Indebtedness and Issuance of Preferred Stock*; and
- (14) Investments that are made with Equity Interests of CCA (other than Disqualified Stock of CCA).  
*Permitted Liens* means:
  - (1) Liens on real or personal property of CCA and any Guarantor securing Indebtedness and other Obligations under Credit Facilities that were permitted by the terms of the Indenture to be incurred;
  - (2) Liens in favor of CCA or the Guarantors;
  - (3) Liens on property of a Person existing at the time such Person is merged with or into or consolidated with CCA or any Restricted Subsidiary of CCA; provided that such Liens were in existence prior to the contemplation of such merger or consolidation and do not extend to any assets other than those of the Person merged into or consolidated with CCA or the Restricted Subsidiary;
  - (4) Liens on property existing at the time of acquisition of the property by CCA or any Restricted Subsidiary of CCA, provided that such Liens were in existence prior to the contemplation of such acquisition;
  - (5) Liens to secure the performance of statutory obligations, surety or appeal bonds, performance bonds or other obligations of a like nature incurred in the ordinary course of business;
  - (6) Liens to secure Indebtedness (including Capital Lease Obligations) permitted by clause (4) of the second paragraph of the covenant described above under the caption *Certain Covenants Incurrence of Indebtedness and Issuance of Preferred Stock* covering only the assets acquired with such Indebtedness;
  - (7) Liens existing on the Issue Date;

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- (8) Liens for taxes, assessments or governmental charges or claims that are not yet delinquent or that are being contested in good faith by appropriate proceedings promptly instituted and diligently concluded, provided that any reserve or other appropriate provision as is required in conformity with GAAP has been made therefor;
- (9) Liens securing Permitted Refinancing Indebtedness; provided that any such Lien does not extend to or cover any property, Capital Stock or Indebtedness other than the property, shares or debt securing the Indebtedness so refunded, refinanced or extended;
- (10) Attachment or judgment Liens not giving rise to a Default or an Event of Default;
- (11) Liens on the Capital Stock of Unrestricted Subsidiaries;
- (12) Liens incurred in the ordinary course of business of CCA or any Subsidiary of CCA with respect to obligations that do not exceed \$15.0 million at any one time outstanding;
- (13) pledges or deposits under workmen's compensation laws, unemployment insurance laws or similar legislation, or good faith deposits in connection with bids, tenders, contracts (other than for the payment of Indebtedness) or leases to which CCA or any Restricted Subsidiary is a party, or deposits to secure public or statutory obligations of CCA or any Restricted Subsidiary or deposits or cash or Government Securities to secure surety or appeal bonds to which CCA or any Restricted Subsidiary is a party, or deposits as security for contested taxes or import or customs duties or for the payment of rent, in each case incurred in the ordinary course of business;
- (14) Liens imposed by law, including carriers', warehousemen's and mechanics' Liens, in each case for sums not yet due or being contested in good faith by appropriate proceedings if a reserve or other appropriate provisions, if any, as shall be required by GAAP shall have been made in respect thereof;
- (15) encumbrances, easements or reservations of, or rights of others for, licenses, rights of way, sewers, electric lines, telegraph and telephone lines and other similar purposes, or zoning or other restrictions as to the use of real properties or liens incidental to the conduct of the business of CCA or a Restricted Subsidiary or to the ownership of its properties which do not in the aggregate materially adversely affect the value of said properties or materially impair their use in the operation of the business of CCA or such Restricted Subsidiary;
- (16) Liens securing Hedging Obligations so long as the related Indebtedness is secured by a Lien on the same property securing such Hedging Obligations;
- (17) leases and subleases of real property which do not materially interfere with the ordinary conduct of the business of CCA or any of its Restricted Subsidiaries; and
- (18) normal customary rights of setoff upon deposits of cash in favor of banks or other depository institutions.

*Permitted Refinancing Indebtedness* means any Indebtedness of CCA or any of its Restricted Subsidiaries issued in repayment of, exchange for, or the net proceeds of which are used to extend, refinance, renew, replace, repay, defease or refund other Indebtedness of CCA or any of its Restricted Subsidiaries (other than intercompany Indebtedness and Disqualified Stock of CCA or a Restricted Subsidiary); provided that:

- (1) the principal amount (or accreted value, if applicable) of such Permitted Refinancing Indebtedness does not exceed the principal amount (or accreted value, if applicable) of the Indebtedness extended, refinanced, renewed, replaced, repaid, defeased or refunded (plus all accrued interest on the Indebtedness and the amount of all expenses and premiums incurred in connection therewith);

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- (2) such Permitted Refinancing Indebtedness has a final maturity date later than the final maturity date of, and has a Weighted Average Life to Maturity equal to or greater than the Weighted Average Life to Maturity of, the Indebtedness being extended, refinanced, renewed, replaced, repaid, defeased or refunded;
- (3) if the Indebtedness being extended, refinanced, renewed, replaced, repaid, defeased or refunded is subordinated in right of payment to the Notes, such Permitted Refinancing Indebtedness has a final maturity date later than the final maturity date of, and is subordinated in right of payment to, the Notes on terms at least as favorable to the Holders of Notes as those contained in the documentation governing the Indebtedness being extended, refinanced, renewed, replaced, repaid, defeased or refunded; and
- (4) such Indebtedness is incurred either by CCA or by the Restricted Subsidiary who is the obligor on the Indebtedness being extended, refinanced, renewed, replaced, repaid, defeased or refunded.

*Person* means any individual, corporation, partnership, joint venture, association, joint-stock company, trust, unincorporated organization, limited liability company or government or other entity.

*PMI Notes* means those certain 8.0% convertible subordinated notes due February 28, 2005 issued pursuant to that certain Note Purchase Agreement, dated as of December 31, 1998, as amended on June 30, 2000 and on March 5, 2001, and as may be further amended through the date of the Supplemental Indenture, between CCA and PMI Mezzanine Fund, L.P.

*Qualified Trust* means a trust or other special purpose vehicle formed for the sole purpose of, and which is limited by its charter or other organizational documents to conduct no business other than, issuing Qualified Trust Preferred Stock and lending the proceeds from such issuance to CCA.

*Qualified Trust Indebtedness* means Indebtedness of CCA or a Restricted Subsidiary to a Qualified Trust (a) in an aggregate principal amount not exceeding the amount of funds raised by such trust from the issuance of Qualified Trust Preferred Stock and (b) that by its terms (or by the terms of any security into which it is convertible, or for which it is exchangeable, in each case at the option of the Qualified Trust or the holder of any Qualified Trust Preferred Stock), or upon the happening of any event, does not mature and is not mandatorily redeemable, pursuant to a sinking fund obligation or otherwise, or redeemable at the option of the Qualified Trust or any holder of the Qualified Trust Preferred Stock, in whole or in part, on or prior to the date that is 91 days after the date on which the notes mature; provided that such Qualified Trust Indebtedness may be redeemed pursuant to its terms upon a change of control of CCA if the terms of such Qualified Trust Indebtedness (a) define a change of control in a manner that is not more expansive than the definition contained in the indenture and (b) explicitly provide that no payment shall be made with respect to such indebtedness upon a change of control unless and until CCA has complied with the provisions described above under Repurchase at the Option of Holders Change of Control and purchases all notes properly tendered and not withdrawn pursuant to a Change of Control Offer to the extent required by the indenture.

*Qualified Trust Preferred Stock* means a preferred stock or preferred interest in a Qualified Trust the net proceeds from the issuance of which are used to finance Qualified Trust Indebtedness and that, by its terms (or by the terms of any security into which it is convertible, or for which it is exchangeable, in each case at the option of the holder of the Qualified Trust Preferred Stock), or upon the happening of any event, does not mature and is not mandatorily redeemable, pursuant to a sinking fund obligation or otherwise, or redeemable at the option of the holder of the Qualified Trust Preferred Stock, in whole or in part, on or prior to the date that is 91 days after the date on which the notes mature.

*Restricted Investment* means an Investment other than a Permitted Investment.

*Restricted Subsidiary* of CCA means any Subsidiary of CCA that is not an Unrestricted Subsidiary.

*Sale and Leaseback Transaction* means any direct or indirect arrangement relating to property now owned or hereafter acquired whereby CCA or a Restricted Subsidiary transfers such property to another

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Person and CCA or a Restricted Subsidiary leases it from such Person other than a lease properly characterized pursuant to GAAP as a capital lease obligation.

*Significant Subsidiary* means any Subsidiary that would be a significant subsidiary as defined in Article 1, Rule 1-02 of Regulation S-X, promulgated pursuant to the Securities Act, as such Regulation is in effect on the Issue Date.

*Stated Maturity* means, with respect to any installment of interest or principal on any series of Indebtedness, the date on which the payment of interest or principal was scheduled to be paid in the original documentation governing such Indebtedness, and will not include any contingent obligations to repay, redeem or repurchase any such interest or principal prior to the date originally scheduled for the payment thereof.

*Stockholder Litigation* means that certain action styled Dasburg, S.A. v. Corrections Corporation of America, et al., Civil Action No. 98-2391-III, filed in the Chancery Court for the State of Tennessee, Twentieth District, Davidson County, and constituting the state court portion of previously outstanding federal and state stockholder litigation against CCA.

*Subsidiary* means, with respect to any specified Person:

- (1) any corporation, association or other business entity of which more than 50% of the total voting power of shares of Capital Stock entitled (without regard to the occurrence of any contingency) to vote in the election of directors, managers or trustees of the corporation, association or other business entity is at the time owned or controlled, directly or indirectly, by that Person or one or more of the other Subsidiaries of that Person (or a combination thereof); and
- (2) any partnership (a) the sole general partner or the managing general partner of which is such Person or a Subsidiary of such Person or (b) the only general partners of which are that Person or one or more Subsidiaries of that Person (or any combination thereof).

*Subsidiary Guarantee* means, individually, any Guarantee of payment of the Notes by a Guarantor pursuant to the terms of the Indenture, and, collectively, all such Guarantees. Each such Subsidiary Guarantee will be in the form proscribed by the Indenture.

*Unoccupied Facility* means any prison facility owned by CCA or a Restricted Subsidiary which for the twelve month period ending on the date of measurement has had an average occupancy level of less than 15%.

*Unrestricted Subsidiary* means any Subsidiary of CCA that is designated by the Board of Directors as an Unrestricted Subsidiary pursuant to a Board Resolution, but only to the extent that such Subsidiary:

- (1) has no Indebtedness other than Non-Recourse Debt;
- (2) is not party to any agreement, contract, arrangement or understanding with CCA or any Restricted Subsidiary of CCA unless the terms of any such agreement, contract, arrangement or understanding are no less favorable to CCA or such Restricted Subsidiary than those that might be obtained at the time from Persons who are not Affiliates of CCA;
- (3) is a Person with respect to which neither CCA nor any of its Restricted Subsidiaries has any direct or indirect obligation (a) to subscribe for additional Equity Interests or (b) to maintain or preserve such Person's financial condition or to cause such Person to achieve any specified levels of operating results; and
- (4) has not guaranteed or otherwise directly or indirectly provided credit support for any Indebtedness of CCA or any of its Restricted Subsidiaries.

Any designation of a Subsidiary of CCA as an Unrestricted Subsidiary will be evidenced to the trustee by filing with the trustee a certified copy of the Board Resolution giving effect to such designation and an Officers' Certificate certifying that such designation complied with the preceding conditions and was permitted by the covenant described above under the caption "Certain Covenants - Restricted

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Payments. If, at any time, any Unrestricted Subsidiary would fail to meet the preceding requirements as an Unrestricted Subsidiary, it will thereafter cease to be an Unrestricted Subsidiary for purposes of the Indenture and any Indebtedness of such Subsidiary will be deemed to be incurred by a Restricted Subsidiary of CCA as of such date and, if such Indebtedness is not permitted to be incurred as of such date under the covenant described under the caption *Certain Covenants Incurrence of Indebtedness and Issuance of Preferred Stock*, CCA will be in default of such covenant. The Board of Directors of CCA may at any time designate any Unrestricted Subsidiary to be a Restricted Subsidiary; provided that such designation will be deemed to be an incurrence of Indebtedness by a Restricted Subsidiary of CCA of any outstanding Indebtedness of such Unrestricted Subsidiary and such designation will only be permitted if (1) such Indebtedness is permitted under the covenant described under the caption *Certain Covenants Incurrence of Indebtedness and Issuance of Preferred Stock*, calculated on a pro forma basis as if such designation had occurred at the beginning of the four-quarter reference period; and (2) no Default or Event of Default would be in existence following such designation.

*Voting Stock* of any Person as of any date means the Capital Stock of such Person that is at the time entitled to vote in the election of the Board of Directors of such Person.

*Weighted Average Life to Maturity* means, when applied to any Indebtedness at any date, the number of years obtained by dividing:

- (1) the sum of the products obtained by multiplying (a) the amount of each then remaining installment, sinking fund, serial maturity or other required payments of principal, or liquidation preference, as the case may be, including payment at final maturity, in respect of the Indebtedness, by (b) the number of years (calculated to the nearest one-twelfth) that will elapse between such date and the making of such payment; by
- (2) the then outstanding aggregate principal amount or liquidation preference, as the case may be, of such Indebtedness.

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**MATERIAL U.S. FEDERAL INCOME TAX CONSIDERATIONS**

*The following is a general discussion of material U.S. federal income tax consequences to a holder with respect to the purchase, ownership and disposition of the Notes. This summary is generally limited to holders who will hold the Notes as capital assets within the meaning of the Internal Revenue Code of 1986, as amended (the Code) and who acquire the Notes in this offering at the initial offering price, and does not deal with the U.S. federal income tax consequences to investors subject to special treatment under the U.S. federal income tax laws, such as dealers in securities or foreign currency, tax-exempt entities, banks, thrifts, insurance companies, persons that hold the Notes as part of a straddle, a hedge against currency risk, a conversion transaction or other integrated transaction, and persons that have a functional currency other than the U.S. dollar, all within the meaning of the Code. In addition, this discussion does not describe any tax consequences arising out of the tax laws of any state, local or foreign jurisdiction.*

The federal income tax considerations set forth below are based upon the Code, existing and proposed regulations thereunder, and current administrative rulings and court decisions, all of which are subject to change. Prospective investors should particularly note that any such change could have retroactive application so as to result in federal income tax consequences different from those discussed below.

Based on currently applicable authorities, we will treat the Notes as indebtedness for U.S. federal income tax purposes, and the remainder of this discussion assumes that the Notes will constitute indebtedness for U.S. tax purposes. We have not sought and will not seek any rulings from the Internal Revenue Service with respect to the matters discussed below. There can be no assurance that the IRS will not take a different position concerning the tax consequences of the purchase, ownership or disposition of the Notes or that any such position would not be sustained.

**The following discussion constitutes the opinion of Bass, Berry & Sims PLC, tax counsel to the Company, as to the material U.S. federal income tax consequences generally applicable to purchasers of the Notes. Investors considering the purchase of the Notes should consult their own tax advisers with respect to the application of the United States federal income tax laws to their particular situations, as well as any tax consequences arising under the federal estate or gift tax rules or under the laws of any state, local or foreign taxing jurisdiction or under any applicable tax treaty.**

**TAXATION OF U.S. HOLDERS**

The following discussion is limited to the U.S. federal income tax consequences relevant to U.S. Holders. As used herein, U.S. Holders are beneficial owners of the securities, that are, for United States federal income tax purposes:

citizens or residents of the United States;

corporations or other entities taxable as corporations created or organized in, or under the laws of, the United States, any state thereof or the District of Columbia;

estates, the income of which is subject to United States federal income taxation regardless of its source; or

trusts if (A) a court within the United States is able to exercise primary supervision over the administration of the trust and (B) one or more U.S. persons have the authority to control all substantial decisions of the trust.

If a partnership holds Notes, the tax treatment of a partner in the partnership will generally depend upon the status of the partner and the activities of the partnership. If you are a partner of a partnership holding the Notes, you should consult your tax advisor regarding the tax consequences of the purchase, ownership and disposition of the Notes.

Certain U.S. federal income tax consequences relevant to a non-U.S. Holder are discussed separately below.

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### **Taxation of Interest**

U.S. Holders generally will be required to recognize as ordinary income any interest paid or accrued on the Notes, in accordance with their regular method of tax accounting. In certain circumstances (see Description of Notes Repurchase at the Option of Holders ), we may be obligated to pay amounts in excess of stated interest or principal on the notes. According to Treasury Regulations, the possibility that any such payments in excess of stated interest or principal will be made will not affect the amount of interest income a U.S. Holder recognizes if there is only a remote chance as of the date the notes were issued that such payments will be made. Therefore, we do not intend to treat these potential payments as part of the yield to maturity of the notes. Our determination that these contingencies are remote is binding on a U.S. Holder unless such holder discloses its contrary position in the manner required by applicable Treasury Regulations. Our determination is not, however, binding on the IRS, and if the IRS were to challenge this determination, a U.S. Holder might be required to accrue income on its notes in excess of stated interest, and to treat as ordinary income rather than capital gain any income realized on the taxable disposition of a note before the resolution of the contingencies. In the event a contingency occurs, it would affect the amount and timing of the income recognized by a U.S. Holder. If we pay the additional payments, U.S. Holders will be required to recognize such amounts as income.

### **Pre-Issuance Accrued Interest**

A portion of the price paid for a note will be allocable to interest that accrued prior to the date the note is purchased ( Accrued Interest ). The Company intends to take the position that, on the first interest payment date after such date, a portion of the interest received equivalent to the Accrued Interest amount will be treated as a return of the Accrued Interest, and such amount will not be treated as a payment of interest on the note. Amounts treated as a return of Accrued Interest will reduce a holder's adjusted tax basis in the note by a corresponding amount.

### **Sale, Exchange or Redemption of the Notes**

Upon the disposition of a Note by sale, exchange or redemption, a U.S. Holder will generally recognize gain or loss equal to the difference between (1) the amount realized on the disposition of the Note (other than amounts attributable to accrued interest on the Note, which will be treated as ordinary interest income for federal income tax purposes if not previously included in income) and (2) the U.S. Holder's adjusted tax basis in the Note. A U.S. Holder's adjusted tax basis in a Note generally will equal the cost of the Note to such U.S. Holder (other than any cost attributable to accrued interest as of the date the U.S. Holder acquired the Note less any principal payments).

Gain or loss from the taxable disposition of a Note generally will be capital gain or loss and will be long-term capital gain or loss if the Note was held by the U.S. Holder for more than one year at the time of the disposition. For non-corporate holders, certain preferential tax rates may apply to gain recognized as long-term capital gain. The deductibility of capital losses is subject to certain limitations.

### **Backup Withholding and Information Reporting**

Where required, information will be reported to both U.S. Holders of Notes and the IRS regarding the amount of interest and principal paid on the Notes in each calendar year as well as the corresponding amount of tax withheld, if any exists.

Under the backup withholding provisions of the Code and the applicable Treasury Regulations, a holder of Notes may be subject to backup withholding at a rate of up to 31% with respect to interest and principal paid on the Notes and/or the proceeds from dispositions of the Notes. Certain holders (including, among others, corporations and certain tax-exempt organizations) are generally not subject to backup withholding. U.S. Holders will be subject to this backup withholding tax if such holder is not otherwise exempt and such holder: (1) fails to furnish its taxpayer identification number, or TIN, which, for an individual, is ordinarily his or her social security number; (2) furnishes an incorrect TIN; (3) is notified by the IRS that it has failed to properly report payments of interest or dividends; or (4) fails to

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certify, under penalties of perjury, that it has furnished a correct TIN and that the IRS has not notified the United States holder that it is subject to backup withholding. Any amounts withheld under the backup withholding rules from a payment to a holder will be allowed as a credit against such holder's United States federal income tax liability and may entitle such holder to a refund, provided that the required information is furnished to the Internal Revenue Service.

### **NON-U.S. HOLDERS**

The following discussion is limited to the U.S. federal income and estate tax consequences of the acquisition, ownership and disposition of the Notes by an initial purchaser of the Notes that is not a U.S. Holder as defined above. The rules governing the United States federal income taxation of a non-U.S. Holder of Notes are complex and no attempt will be made herein to provide more than a summary of such rules. Special rules may apply to certain non-U.S. Holders such as controlled foreign corporations, passive foreign investment companies and foreign personal holding companies. Non-U.S. Holders should consult with their own tax advisers to determine the effect of federal, state, local and foreign income tax laws, as well as treaties, with regard to an investment in the Notes, including any reporting requirements.

For purposes of the following discussion, interest and gain on the sale, exchange or other disposition of a Note will be considered U.S. trade or business income if the income or gain is either (1) effectively connected with the conduct of a U.S. trade or business, and (2) attributable to a U.S. permanent establishment (or to a fixed base) in the United States.

### **Taxation of Interest**

Generally, interest income of a non-U.S. Holder that is not effectively connected with a U.S. trade or business is subject to a withholding tax at a rate of 30% (or, a lower tax rate specified in an applicable tax treaty). However, interest income earned on a Note by a non-U.S. Holder will qualify for the portfolio interest exception, and therefore will not be subject to United States federal income tax or withholding tax, if:

the interest income is not U.S. trade or business income of the non-U.S. Holder;

the non-U.S. Holder does not actually or constructively own 10% or more of the total combined voting power of the Company's stock entitled to vote;

the non-U.S. Holder is not, for U.S. federal income tax purposes, a controlled foreign corporation that is related to the Company through stock ownership;

the non-U.S. Holder is not a bank which acquired the Note in consideration for an extension of credit made pursuant to a loan agreement entered into in the ordinary course of its trade or business; and

either (A) the non-U.S. Holder certifies, under penalty of perjury, to the Company or the Company's agent that it is not a U.S. person and such non-U.S. Holder provides its name, address and certain other information on a properly executed Form W-8 BEN (or an applicable substitute form), or (B) a securities clearing organization bank or other financial institution that holds customers' securities in the ordinary course of its trade or business holds the Note on behalf of the beneficial owner and provides a statement to the Company or the Company's agent signed under the penalties of perjury in which the organization, bank or financial institution certifies that the form or a suitable substitute has been received by it from the non-U.S. Holder or from another financial institution entity on behalf of the non-U.S. Holder and furnishes the Company or the Company's agent with a copy.

If a non-U.S. Holder cannot satisfy the requirements for the portfolio interest exception as described above, the gross amount of payments of interest to such non-U.S. Holder that are not U.S. trade or business income will be subject to U.S. federal withholding tax at the rate of 30%, unless a U.S. income

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tax treaty applies to reduce or eliminate withholding. U.S. trade or business income will not be subject to U.S. federal withholding tax but will be taxed on a net income basis at regular U.S. tax rates, and if the non-U.S. Holder is a foreign corporation, such U.S. trade or business income may be subject to the branch profits tax equal to 30%, or a lower rate provided by an applicable treaty. In order to claim the benefit provided by a tax treaty or to claim exemption from withholding because the income is U.S. trade or business income, a non-U.S. Holder must provide either:

a properly executed Form W-8 BEN (or suitable substitute form) claiming an exemption from or reduction in withholding under the benefit of an applicable tax treaty; or

a properly executed Form W-8 ECI (or suitable substitute form) stating that interest paid on the Note is not subject to withholding tax because it is effectively connected with a U.S. trade or business.

### **Sale, Exchange or Redemption of Notes**

Generally, a non-U.S. Holder will not be subject to United States federal income tax or withholding tax on any gain realized on the sale, exchange or redemption of a Note unless:

the gain is effectively connected with a U.S. trade or business; or

the non-U.S. Holder is an individual who is present in the United States for 183 days or more during the taxable year in which the disposition of the Note is made and certain other requirements are met, or is subject to tax pursuant to the provisions of U.S. tax law applicable to certain former citizens and residents of the United States.

### **Information Reporting and Backup Withholding**

Where required, information will be reported annually to each non-U.S. Holder as well as the IRS regarding any interest that is either subject to withholding or exempt from U.S. withholding tax pursuant to a tax treaty or to the portfolio interest exception. Copies of these information returns may also be made available to the tax authorities of the country in which the non-U.S. Holder resides under the provisions of a specific treaty or agreement.

Under the backup withholding provisions of the Code and the applicable Treasury Regulations, a holder of Notes may be subject to backup withholding at a rate of up to 31% with respect to interest and principal paid on the Notes and/or the proceeds from dispositions of the Notes. However, the regulations provide that payments of principal and interest to a non-U.S. Holder will not be subject to backup withholding and information reporting if the non-U.S. Holder certifies its non-U.S. status under penalties of perjury or satisfies the requirements of an otherwise established exemption, provided that neither the Company nor the Company's paying agent has actual knowledge that such holder is a U.S. person or that the conditions of any other exemption are not, in fact, satisfied.

The payment of the proceeds from the disposition of Notes to or through the U.S. office of any broker, U.S. or foreign, will be subject to information reporting and possible backup withholding unless the non-U.S. Holder certifies its non-U.S. status under penalty of perjury or satisfies the requirements of an otherwise established exemption, provided that the broker does not have actual knowledge that such holder is a U.S. person or that the conditions of any other exemption are not, in fact, satisfied. The payment of the proceeds from the disposition of a Note to or through a non-U.S. office of a non-U.S. broker that does not have certain enumerated relationships with the United States will not be subject to information reporting or backup withholding.

When a non-U.S. Holder receives a payment of proceeds from the disposition of Notes either to or through a non-U.S. office of a broker that is either a U.S. person or a person who has certain enumerated relationships with the United States, the regulations require information reporting (but not backup withholding) on the payment, unless the broker has documentary evidence in its files that the non-U.S. Holder is not a U.S. person and the broker has no knowledge to the contrary.

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Any amounts withheld under the backup withholding rules from a payment to a holder will be allowed as a credit against such holder's United States federal income tax liability and may entitle such holder to a refund, provided that the required information is furnished to the Internal Revenue Service.

**U.S. Federal Estate Tax**

The U.S. federal estate tax will not apply to Notes owned by an individual who is not a citizen or resident of the United States at the time of his death provided that (1) the individual does not actually or constructively own 10% or more of the total combined voting power of the Company's stock entitled to vote and (2) interest on the Note would not have been, if received at the time death, effectively connected with the conduct of a U.S. trade or business of such holder.

**Accordingly, you should consult your own tax adviser as to the particular tax consequences to you of purchasing, holding and disposing of the Notes, including the applicability and effect of any state, local or foreign tax laws, and of any proposed changes in applicable laws.**

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**ERISA CONSIDERATIONS**

The Employee Retirement Income Security Act of 1974, or ERISA, imposes requirements on employee benefit plans subject to Title I of ERISA, which we refer to as ERISA plans, and on those persons who are fiduciaries of ERISA plans. Investments by ERISA plans are subject to ERISA's general fiduciary requirements, including the requirement of investment prudence and diversification of and the requirement that an ERISA plan's investments be made in accordance with documents governing the ERISA plan.

Section 406 of ERISA and Section 4975 of the Code prohibit certain transactions involving the assets of an ERISA plan, as well as those plans that are not subject to ERISA but that are subject to Section 4975 of the Code, such as individual retirement accounts, which, together with ERISA plans, we refer to as the plans, and specified persons referred to as parties in interest or disqualified persons, having specified relationships to such plans, unless a statutory or administrative exemption is applicable to the transaction. A party in interest or disqualified person who engages in a prohibited transaction may be subject to excise taxes and to other penalties and liabilities under ERISA and the Code. In addition, the fiduciary of the plan that engaged in a prohibited transaction may be subject to penalties and liabilities under ERISA and the Code.

The fiduciary of a plan that proposes to purchase and hold any notes should consider, among other things, whether such purchase and holding may involve (1) a direct or indirect extension of credit to a party in interest or to a disqualified person, (2) the sale or exchange of any property between a plan and a party in interest or disqualified person or (3) the transfer to, or use by or for the benefit of, a party in interest or disqualified person, of any plan assets. Depending upon the identity of the plan fiduciary making the decision to acquire or hold the notes on behalf of a plan, Prohibited Transaction Class Exemption (PTCE) 91-38 (relating to investments by bank collective investment funds), PTCE 84-14 (relating to transactions effected by a qualified professional asset manager), PTCE 95-60 (relating to investments by an insurance company general account), PTCE 96-23 (relating to transactions directed by an in-house professional asset manager) or PTCE 90-1 (relating to investments by an insurance company pooled separate accounts), could provide an exemption from the prohibited transaction provisions of ERISA and Section 4975 of the Code, although there can be no assurance that all of the conditions of such exemptions will be satisfied.

Federal, state, local or non-United States laws governing the investment and management of the assets of governmental plans and other plans which are not subject to ERISA or the Code may contain fiduciary and prohibited transaction requirements similar to those under Title I of ERISA and Section 4975 of the Code, which we refer to as similar laws. Accordingly, fiduciaries of such plans, in consultation with their counsel, should consider the impact of their respective laws on investments in the Notes and the considerations discussed above, to the extent applicable.

Because of the above, the Notes should not be purchased or held by any person investing plan assets or any plan or employee benefit plan subject to similar laws, unless such purchase and holding will not be subject to, or will be exempt from, the prohibited transaction rules of ERISA and the Code or similar violation of any applicable similar laws.

Accordingly, by acceptance of a Note, each purchaser and subsequent transferee of a Note will be deemed to have represented and warranted that either (1) no portion of the assets used by such purchaser or transferee to acquire the Notes constitutes assets of any employee benefit plan subject to Title I of ERISA or Section 4975 of the Code or the applicable provision of any similar law or (2) the purchase and holding of the Notes by such purchaser or transferee will not constitute a non-exempt prohibited transaction under Section 406 of the Code or a violation of any similar laws.

Due to the complexity of these rules and penalties that may be imposed upon persons involved in non-exempt prohibited transactions, it is particularly important that fiduciaries, or other persons, considering purchasing the Notes on behalf of, or with the assets of, any plan or employee benefit plan subject to similar laws, consult with their counsel regarding the potential applicability of ERISA, Section 4975 of the Code and any similar laws to such investment and whether an exemption would be applicable to the purchase and holding of the Notes.

**Table of Contents****UNDERWRITING**

We intend to offer the Notes through the underwriters named below. We have entered into an underwriting agreement, dated May 2, 2003, with the underwriters pursuant to which, on the terms and subject to the conditions of the underwriting agreement, we have agreed to sell to the underwriters, and the underwriters severally have agreed to purchase from us, the principal amount of Notes listed opposite their names below:

<b>Underwriter</b>	<b>Principal Amount of Notes</b>
Lehman Brothers Inc.	\$ 140,000,000
Deutsche Bank Securities Inc.	32,500,000
UBS Warburg LLC	32,500,000
SG Cowen Securities Corporation	25,000,000
SouthTrust Securities, Inc.	8,750,000
First Analysis Securities Corporation	3,750,000
Jefferies & Company, Inc.	3,750,000
BB&T Capital Markets, a division of Scott & Stringfellow, Inc.	1,875,000
Morgan Joseph & Co. Inc.	1,875,000
	<hr/>
Total	\$ 250,000,000
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The underwriting agreement provides that the obligation of the underwriters to purchase the Notes included in this offering is subject to customary conditions. The underwriters have agreed to purchase all of the Notes sold pursuant to the underwriting agreement if any of these Notes are purchased. If an underwriter defaults, the underwriting agreement provides that the purchase commitments of the nondefaulting underwriters may be increased or the underwriting agreement may be terminated.

The underwriters initially propose to offer part of the Notes to the public at the public offering price set forth on the cover page of this prospectus supplement and in part to certain dealers at a price that represents a concession not in excess of 0.25% of the principal amount of the Notes. The underwriters may allow, and such dealers may re-allow, a concession not in excess of 0.12% of the principal amount of the Notes to certain other dealers. After the initial offering of the Notes, the offering price and other selling terms may from time to time be varied by the underwriters.

In connection with this offering, the underwriters may purchase and sell the Notes in the open market. These transactions may include over-allotment and stabilizing transactions and purchases to cover short positions created by the underwriters in connection with the offering. Stabilizing transactions consist of certain bids or purchases for the purpose of preventing or retarding a decline in the market price of the Notes, and short positions created by the underwriters involve the sale by the underwriters of a greater aggregate principal amount of Notes than they are required to purchase from us. The underwriters also may impose a penalty bid, whereby selling concessions allowed to broker-dealers in respect of the Notes sold in the offering may be reclaimed by the underwriters if such Notes are repurchased by the underwriters in stabilizing or covering transactions. These activities may stabilize, maintain or otherwise affect the market price of the Notes, which may be higher than the price that might otherwise prevail in the open market, and these activities, if commenced, may be discontinued at any time. These transactions may be effected in the over-the-counter market or otherwise.

The Notes are a new issue of securities with no established trading market. We have been advised by the underwriters that they intend to make a market in the Notes, but they are not obligated to do so and may discontinue any market making at any time without notice. We cannot assure you as to the liquidity of the trading market for the Notes. The Notes will not be listed on any securities exchange.

We have agreed to indemnify the underwriters against certain civil liabilities, including liabilities under the Securities Act of 1933, as amended. We have also agreed, during the period ending 90 days from the date of this prospectus supplement, not to issue, sell, offer to sell, grant any option for the sale of,

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or otherwise dispose of any debt securities (except for the Notes) with substantially similar terms to the Notes.

In the ordinary course of its business, the underwriters and their respective affiliates have engaged, and may in the future engage, in commercial banking and/or investment banking transactions with us and our affiliates. They have received, and expect to receive, customary fees and commissions for these transactions. Lehman Brothers Inc. is the sole lead arranger, Lehman Commercial Paper Inc., an affiliate of Lehman Brothers Inc., is administrative agent, and affiliates of Lehman Brothers Inc. are lenders under our senior secured credit facility. Lehman Brothers Inc. was also the sole book-running manager for our offering of 9.875% senior notes in May 2002. Lehman Brothers Inc. was also the dealer-manager for the tender offer and consent solicitation for our 12% Senior Notes in May 2002 and is the dealer-manager for our offer to purchase up to 90% of our outstanding series B preferred stock. Lehman Brothers Inc. is also the sole book-running manager for our concurrent offering of common stock. Each of Deutsche Bank AG, an affiliate of Deutsche Bank Securities Inc., Société Général, an affiliate of SG Cowen Securities, and SouthTrust Bank NA, an affiliate of SouthTrust Securities, Inc., is a lender under our senior secured credit facility.

Under Rule 2710 of the Conduct Rules of the National Association of Securities Dealers, Inc. (the NASD), certain underwriters in this offering may be considered to have a conflict of interest because a portion of the net proceeds to us from this offering may be paid to affiliates of certain of the underwriters, other than Lehman Brothers Inc., to repay our existing term loans as described under Use of Proceeds. Therefore, this offering is being conducted in accordance with Rule 2710(c)(8) and Rule 2720(c)(3)(A) of the NASD. This rule provides generally that if more than 10% of the net proceeds from the sale of debt securities is paid to the underwriters of such debt securities or their affiliates, then the yield of the debt securities may not be lower than that recommended by a qualified independent underwriter. In accordance with this requirement, Lehman Brothers Inc. has assumed the responsibilities of acting as a qualified independent underwriter, or QIU. In its role as QIU, Lehman Brothers Inc. has performed a due diligence investigation and reviewed and participated in the preparation of this prospectus supplement and the registration statement of which this prospectus supplement is a part. We and the other underwriters have agreed to indemnify Lehman Brothers Inc. in its capacity as QIU against certain liabilities, including liabilities under the Securities Act of 1933, or to contribute to payments that Lehman Brothers Inc., in its capacity as QIU, may be required to make in respect of any of these liabilities. The yield of the Notes is no lower than the yield recommended by Lehman Brothers Inc.

This prospectus supplement and accompanying prospectus in electronic format may be made available on the Lehman Brothers Inc. Internet site or through other online services maintained by Lehman Brothers Inc. or by its affiliates. Prospective investors may view offering terms online and may be allowed to place orders online. The underwriters may agree with us to allocate a specific number of shares for sale to online brokerage account holders. Any such allocation for online distributions will be made on the same basis as other allocations.

Other than the prospectus supplement and accompanying prospectus in electronic format, the information on the Lehman Brothers Inc. web site and any information contained in any other web site maintained by Lehman Brothers Inc. or its affiliates is not part of this prospectus supplement, the accompanying prospectus or the registration statement of which this prospectus supplement and accompanying prospectus forms a part, has not been approved or endorsed by us or Lehman Brothers Inc. and should not be relied upon by investors.

You should read Plan of Distribution in the accompanying prospectus for further information regarding the distribution of the Notes.

**LEGAL MATTERS**

The legality of the securities offered by this prospectus supplement and the enforceability of Corrections Corporation of America's obligations under the Notes will be passed upon for the Company by



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Bass, Berry & Sims PLC, Nashville, Tennessee. Latham & Watkins LLP, New York, New York will act as counsel for the underwriters. Bass, Berry & Sims PLC will rely upon Miles & Stockbridge P.C. as to all matters of Maryland law and upon Sidley, Austin, Brown & Wood LLP, New York, New York, as to all matters of New York law.

**EXPERTS**

The 2002 and 2001 consolidated financial statements of Corrections Corporation of America and Subsidiaries as of and for the years ended December 31, 2002 and 2001 appearing in this prospectus supplement have been audited by Ernst & Young LLP, independent auditors, as set forth in their report thereon appearing elsewhere herein, and have been included herein in reliance upon such report given on the authority of said firm as experts in auditing and accounting. Ernst & Young LLP's report contains explanatory paragraphs describing (1) Corrections Corporation of America's adoption of certain new accounting standards effective January 1, 2002 and 2001 and (2) Ernst & Young LLP's audit procedures with respect to transitional disclosures related to the 2000 combined and consolidated financial statements required by Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets. Ernst & Young LLP was not engaged to audit, review, or apply any procedures to the 2000 financial statements other than with respect to the certain transitional disclosures and, accordingly, has not expressed an opinion or any other form of assurance on the 2000 financial statements.

The combined and consolidated financial statements for the year ended December 31, 2000 have been included herein in reliance on the report of Arthur Andersen LLP, independent certified public accountants, given on the authority of said firm as experts in auditing and accounting. Arthur Andersen LLP has not consented to the inclusion of their report herein, and we have dispensed with the requirement to file Arthur Andersen LLP's consent in reliance on Rule 437a under the Securities Act. Because Arthur Andersen LLP has not consented to the inclusion of their report in this prospectus supplement you may not be able to recover against Arthur Andersen LLP under Section 11 of the Securities Act for any untrue statement of a material fact contained in the financial statements audited by Arthur Andersen LLP or any omissions to state a material fact required to be stated in those financial statements.

**INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE**

Reference is made to the information under "Incorporation of Information by Reference" in the accompanying prospectus.

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**REPORT OF INDEPENDENT AUDITORS**

To the Board of Directors and Stockholders of

Corrections Corporation of America:

We have audited the accompanying consolidated balance sheets of Corrections Corporation of America and Subsidiaries as of December 31, 2002 and 2001 and the related consolidated statements of operations, stockholders' equity and cash flows for the years then ended. These financial statements are the responsibility of management. Our responsibility is to express an opinion on these financial statements based on our audits. The combined and consolidated statements of operations, cash flows and stockholders' equity of Corrections Corporation of America for the year ended December 31, 2000 were audited by other auditors, who have ceased operations. Those auditors expressed an unqualified opinion, including an emphasis-of-matter paragraph referring to the Company's near-term debt maturities and management's plans to address the Company's liquidity concerns and an explanatory paragraph that disclosed the change in the Company's method of accounting for derivative financial instruments, on those financial statements in their report dated February 11, 2002, except with respect to the matter discussed in the last paragraph of Note 16 of those financial statements, as to which the date was March 9, 2002.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 14 to the financial statements, during the second quarter of 2002, the Company completed a comprehensive refinancing of its debt which originally was maturing in December 2002. This successful refinancing significantly reduced the concerns that existed at December 31, 2001 regarding the Company's ability to generate or obtain sufficient working capital resources to satisfy its maturing debt obligations and address its liquidity issues. Accordingly, we have not included an explanatory paragraph in our report regarding the Company's near-term debt maturities and liquidity concerns that existed at December 31, 2001.

In our opinion, the 2002 and 2001 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Corrections Corporation of America and Subsidiaries at December 31, 2002 and 2001, and the consolidated results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States.

As discussed in Notes 4 and 16 to the consolidated financial statements, the Company adopted Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended, effective January 1, 2001. As discussed in Notes 4 and 17 to the consolidated financial statements, the Company adopted Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets, and Statement of Financial Accounting Standards No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, effective January 1, 2002.

As discussed above, the combined and consolidated statements of operations, cash flows and stockholders' equity of Corrections Corporation of America for the year ended December 31, 2000 were audited by other auditors, who have ceased operations. As described in Note 4, these financial statements have been revised to include the transitional disclosures required by Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets, which was adopted by the Company as of January 1, 2002. Our audit procedures with respect to the disclosures in Note 4 with respect to 2000 included (a) agreeing the previously reported net income to the previously issued financial statements and the adjustments to reported net income representing amortization expense (including any related tax

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effects) recognized in those periods related to goodwill to the Company's underlying records obtained from management, and (b) testing the mathematical accuracy of the reconciliation of adjusted net income to reported net income and the related earnings-per-share amounts. In our opinion, the disclosures for 2000 in Note 4 are appropriate. However, we were not engaged to audit, review, or apply any procedures to the 2000 financial statements of the Company other than with respect to such disclosures and, accordingly, we do not express an opinion or any other form of assurance on the 2000 financial statements taken as a whole.

ERNST & YOUNG LLP

Nashville, Tennessee

February 7, 2003 (except with respect to the matters discussed in the

last two paragraphs of Note 24, as to which the date is March 22, 2003)

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*The below report is a copy of the report previously issued by Arthur Andersen LLP in conjunction with its audits of Corrections Corporation of America and Subsidiaries as of, and for the three-year period ended, December 31, 2001. Note references in this report refer to the financial statements issued by Corrections Corporation of America as of, and for the three-year period ended December 31, 2001. A copy of this report has been provided as required by the American Institute of Certified Public Accountants' Interpretation of Statement on Auditing Standards No. 58, Reports on Audited Financial Statements, and guidance issued by the Securities and Exchange Commission in response to the indictment of Arthur Andersen LLP in March 2002. During 2002, Arthur Andersen LLP substantially ceased operations, including providing auditing and accounting services to public companies, and, as such, has not reissued this report. Additionally, Arthur Andersen LLP has not consented to the use of this audit report. Accordingly, limitations may exist on a) investors' rights to sue Arthur Andersen LLP under Section 11 of the Securities Act for false and misleading financial statements, if any, and the effect, if any, on the due diligence defense of directors and officers, and b) investors' legal rights to sue and recover damages from Arthur Andersen LLP for material misstatements or omissions, if any, in any registration statements and related prospectuses that include, or incorporate by reference, financial statements previously audited by Arthur Andersen LLP.*

**REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS**

To Corrections Corporation of America:

We have audited the accompanying consolidated balance sheets of **CORRECTIONS CORPORATION OF AMERICA** (a Maryland corporation) **AND SUBSIDIARIES** as of December 31, 2001 and 2000, and the related combined and consolidated statements of operations, cash flows and stockholders' equity for each of the three years in the period ended December 31, 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Notes 2 and 15, as of December 31, 2001, the Company has \$963.6 million of debt outstanding, including \$791.9 million outstanding under the Company's senior bank credit facility, which matures on December 31, 2002. Although management has developed plans for addressing the December 31, 2002 debt maturity as discussed in Notes 2 and 15, there can be no assurance that management's plans will be successful and there can be no assurance that the Company will be able to refinance or renew its debt obligations maturing on December 31, 2002.

In our opinion, the combined and consolidated financial statements referred to above present fairly, in all material respects, the financial position of Corrections Corporation of America and Subsidiaries as of December 31, 2001 and 2000, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States.

As explained in Note 17, upon adoption of a new accounting pronouncement effective January 1, 2001, the Company changed its method of accounting for derivative financial instruments.

ARTHUR ANDERSEN LLP

Nashville, Tennessee  
February 11, 2002 (except with respect to the matter discussed in the  
last paragraph of Note 16, as to which the date is March 9, 2002)

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## CORRECTIONS CORPORATION OF AMERICA AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

	December 31,	
	2002	2001
(In thousands, except per share data)		
<b>ASSETS</b>		
Cash and cash equivalents	\$ 65,406	\$ 46,307
Restricted cash	7,363	12,537
Accounts receivable, net of allowance of \$1,344 and \$729, respectively	122,829	128,353
Income tax receivable	32,499	568
Prepaid expenses and other current assets	12,435	12,651
Current assets of discontinued operations	13,815	15,915
	<hr/>	<hr/>
Total current assets	254,347	216,331
Property and equipment, net	1,552,265	1,588,530
Investment in direct financing lease	18,346	18,873
Goodwill	20,902	104,019
Other assets	28,211	36,593
Non-current assets of discontinued operations		6,934
	<hr/>	<hr/>
Total assets	\$ 1,874,071	\$ 1,971,280
	<hr/>	<hr/>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Accounts payable and accrued expenses	\$ 152,905	\$ 143,345
Income tax payable	3,685	5,772
Distributions payable	5,330	15,853
Fair value of interest rate swap agreement		13,564
Current portion of long-term debt	23,054	792,009
Current liabilities of discontinued operations	992	6,177
	<hr/>	<hr/>
Total current liabilities	185,966	976,720
Long-term debt, net of current portion	932,905	171,591
Deferred tax liabilities		56,511
Other liabilities	21,202	19,297
	<hr/>	<hr/>
Total liabilities	1,140,073	1,224,119
	<hr/>	<hr/>
Commitments and contingencies		
Preferred stock \$0.01 par value; 50,000 shares authorized:		
Series A 4,300 shares issued and outstanding; stated at liquidation preference of \$25.00 per share	107,500	107,500
Series B 4,408 and 3,948 shares issued and outstanding at December 31, 2002 and 2001, respectively; stated at liquidation preference of \$24.46 per share	107,831	96,566
Common stock \$0.01 par value; 80,000 shares authorized; 27,986 and 27,921 shares issued and 27,986 and 27,920 shares outstanding at December 31, 2002 and 2001, respectively	280	279

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Additional paid-in capital	1,343,066	1,341,958
Deferred compensation	(1,604)	(3,153)
Retained deficit	(822,111)	(793,236)
Treasury stock, 1 share, at cost, at December 31, 2001		(242)
Accumulated other comprehensive loss	(964)	(2,511)
	<u>733,998</u>	<u>747,161</u>
Total stockholders equity	733,998	747,161
	<u>\$1,874,071</u>	<u>\$1,971,280</u>
Total liabilities and stockholders equity	\$1,874,071	\$1,971,280

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

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**CORRECTIONS CORPORATION OF AMERICA AND SUBSIDIARIES**  
**COMBINED AND CONSOLIDATED STATEMENTS OF OPERATIONS**

	For the Years Ended December 31,		
	2002	2001	2000
	(In thousands, except per share amounts)		
<b>REVENUE:</b>			
Management and other	\$959,137	\$930,635	\$ 261,774
Rental	3,701	5,718	40,938
Licensing fees from affiliates			7,566
	962,838	936,353	310,278
<b>EXPENSES:</b>			
Operating	744,074	721,468	217,315
General and administrative	36,907	34,568	45,463
Depreciation and amortization	51,878	53,279	59,799
Licensing fees to Operating Company			501
Administrative service fee to Operating Company			900
Write-off of amounts under lease arrangements			11,920
Impairment losses			527,919
	832,859	809,315	863,817
<b>OPERATING INCOME (LOSS)</b>	129,979	127,038	(553,539)
<b>OTHER (INCOME) EXPENSE:</b>			
Equity loss and amortization of deferred gain, net	153	358	11,638
Interest expense, net	87,478	126,242	131,545
Other income			(3,099)
Change in fair value of derivative instruments	(2,206)	(14,554)	
Loss on disposals of assets	111	74	1,733
Unrealized foreign currency transaction (gain) loss	(622)	219	8,147
Stockholder litigation settlements			75,406
	84,914	112,339	225,370
<b>INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES, EXTRAORDINARY CHARGE, CUMULATIVE EFFECT OF ACCOUNTING CHANGE AND MINORITY INTEREST</b>	45,065	14,699	(778,909)
Income tax benefit	63,284	3,358	48,002
<b>INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE EXTRAORDINARY CHARGE, CUMULATIVE EFFECT OF ACCOUNTING CHANGE AND MINORITY INTEREST</b>	108,349	18,057	(730,907)
Minority interest in net loss of PMSI and JJFMSI			125



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INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE EXTRAORDINARY CHARGE AND CUMULATIVE EFFECT OF ACCOUNTING CHANGE	108,349	18,057	(730,782)
Income from discontinued operations, net of taxes	681	7,637	
Extraordinary charge	(36,670)		
Cumulative effect of accounting change	(80,276)		
	<u>          </u>	<u>          </u>	<u>          </u>
NET INCOME (LOSS)	(7,916)	25,694	(730,782)
Distributions to preferred stockholders	(20,959)	(20,024)	(13,526)
	<u>          </u>	<u>          </u>	<u>          </u>
NET INCOME (LOSS) AVAILABLE TO COMMON STOCKHOLDERS	\$ (28,875)	\$ 5,670	\$ (744,308)
	<u>          </u>	<u>          </u>	<u>          </u>

(Continued)

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## CORRECTIONS CORPORATION OF AMERICA AND SUBSIDIARIES

## COMBINED AND CONSOLIDATED STATEMENTS OF OPERATIONS (Continued)

	For the Years Ended December 31,		
	2002	2001	2000
	(In thousands, except per share amounts)		
<b>BASIC EARNINGS (LOSS) PER SHARE:</b>			
Income (loss) from continuing operations before extraordinary charge and cumulative effect of accounting change	\$ 3.17	\$(0.08)	\$(56.68)
Income from discontinued operations, net of taxes	0.02	0.31	
Extraordinary charge	(1.33)		
Cumulative effect of accounting change	(2.90)		
Net income (loss) available to common stockholders	\$ (1.04)	\$ 0.23	\$(56.68)
<b>DILUTED EARNINGS (LOSS) PER SHARE:</b>			
Income (loss) from continuing operations before extraordinary charge and cumulative effect of accounting change	\$ 2.75	\$(0.08)	\$(56.68)
Income from discontinued operations, net of taxes	0.02	0.31	
Extraordinary charge	(1.03)		
Cumulative effect of accounting change	(2.26)		
Net income (loss) available to common stockholders	\$ (0.52)	\$ 0.23	\$(56.68)

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

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**CORRECTIONS CORPORATION OF AMERICA AND SUBSIDIARIES**  
**COMBINED AND CONSOLIDATED STATEMENTS OF CASH FLOWS**

	For the Years Ended December 31,		
	2002	2001	2000
	(In thousands)		
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net income (loss)	\$ (7,916)	\$ 25,694	\$(730,782)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	54,388	54,135	59,799
Amortization of debt issuance costs and other non-cash interest	11,816	22,652	15,684
Cumulative effect of accounting change	80,276		
Extraordinary charge	36,670		
Deferred and other non-cash income taxes	646	(3,531)	(13,767)
Equity in loss of joint venture and amortization of deferred gain, net	153	358	11,638
Write-off of amounts under lease arrangements			11,920
Unrealized foreign currency transaction (gain) loss	(622)	219	8,147
Other non-cash items	2,455	2,579	3,595
Loss on disposals of assets	130	74	1,733
Impairment losses			527,919
Change in fair value of derivative instruments	(2,206)	(14,554)	
Minority interest			(125)
Changes in assets and liabilities, net of acquisitions:			
Accounts receivable, prepaid expenses and other assets	7,706	(6,657)	(4,728)
Receivable from affiliates			28,864
Income tax receivable	(32,141)	32,207	(32,662)
Accounts payable, accrued expenses and other liabilities	5,405	(22,002)	68,527
Payable to Operating Company			(2,325)
Income tax payable	(55,371)	1,587	
	101,389	92,761	(46,563)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Expenditures for development and redevelopment	(4,843)		
Expenditures for other capital improvements	(12,254)	(6,435)	(78,663)
(Increase) decrease in restricted cash	5,174	(3,328)	15,200
Payments received on investments in affiliates			6,686
Issuance of note receivable			(529)
Proceeds from sale of assets	4,595	140,277	6,400
Increase in other assets	(3,199)	(1,443)	
Cash acquired in acquisitions			6,938
Purchase of business	(321)		
Payments received on direct financing leases and notes receivable	1,175	1,861	5,517
	(9,673)	130,932	(38,451)

(Continued)

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**Table of Contents****CORRECTIONS CORPORATION OF AMERICA AND SUBSIDIARIES****COMBINED AND CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)**

	For the Years Ended December 31,		
	2002	2001	2000
	(In thousands)		
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Proceeds from issuance of debt	\$ 890,000	\$	\$ 27,572
Borrowings from lines of credits		39,000	7,601
Scheduled principal repayments	(17,764)	(7,667)	(6,084)
Other principal repayments	(878,938)	(220,303)	
Payment of debt issuance costs and other refinancing and related costs	(37,478)	(7,012)	(11,316)
Proceeds from exercise of stock options	433		
Payment to terminate interest rate swap agreement	(8,847)		
Payment of stock issuance costs	(21)	(20)	(403)
Purchase and retirement of preferred stock	(354)		
Payment of dividends	(19,648)	(2,182)	(4,586)
Cash paid for fractional shares		(91)	(11)
Purchase of treasury stock by PMSI and JJFMSI			(13,356)
	(72,617)	(198,275)	(583)
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>			
	19,099	25,418	(85,597)
CASH AND CASH EQUIVALENTS, beginning of year	46,307	20,889	106,486
CASH AND CASH EQUIVALENTS, end of year	\$ 65,406	\$ 46,307	\$ 20,889
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:</b>			
Cash paid during the period for:			
Interest (net of amounts capitalized of \$8,330 in 2000)	\$ 73,067	\$ 104,438	\$ 132,798
Income taxes	\$ 56,396	\$ 3,014	\$ 2,453
<b>SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES:</b>			
Convertible subordinated notes were converted to common stock:			
Long-term debt	\$ (1,114)	\$	\$
Common stock	1		
Additional paid-in capital	1,113		
	\$	\$	\$

(Continued)



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## CORRECTIONS CORPORATION OF AMERICA AND SUBSIDIARIES

## COMBINED AND CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

	For the Years Ended December 31,		
	2002	2001	2000
(In thousands)			
The Company acquired a business for debt and cash:			
Accounts receivable	\$ (177)	\$	\$
Prepaid expenses and other current assets	(21)		
Property and equipment, net	(20)		
Other assets	(578)		
Accounts payable and accrued expenses	300		
Debt	175		
	\$ (321)	\$	\$
The Company issued shares of Series B Preferred Stock under the terms of the Company's 2001 Series B Preferred Stock Restricted Stock Plan:			
Preferred stock - Series B	\$	\$ 4,904	\$
Additional paid-in capital		(2,869)	
Deferred compensation		(2,035)	
	\$	\$	\$
The Company issued shares of common stock and a promissory note payable in partial satisfaction of stockholder litigation:			
Accounts payable and accrued expenses	\$	\$ (69,408)	\$
Long-term debt		25,606	
Common stock		187	
Additional paid-in capital		43,615	
	\$	\$	\$
The Company issued Series B Preferred Stock in lieu of cash distributions to the holders of shares of Series B Preferred Stock on the applicable record date:			
Distributions payable	\$ (11,834)	\$ (11,070)	\$
Preferred stock - Series B	11,834	11,070	
	\$	\$	\$
The Company completed construction of a facility and entered into a direct financing lease:			
Investment in direct financing lease	\$	\$	\$ (89,426)
Property and equipment			89,426
	\$	\$	\$

(Continued)

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## CORRECTIONS CORPORATION OF AMERICA AND SUBSIDIARIES

## COMBINED AND CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

	For the Years Ended December 31,		
	2002	2001	2000
	(In thousands)		
The Company committed to a plan of disposal for certain long-lived assets:			
Assets held for sale	\$	\$	\$(163,517)
Investment in direct financing lease			85,722
Property and equipment			77,795
	—	—	—
	\$	\$	\$
	—	—	—
The Company issued debt to satisfy accrued default rate interest on a convertible note and to satisfy a payable for professional services:			
Current portion of long-term debt	\$	\$	\$ 2,014
Accounts payable and accrued expenses			(2,014)
	—	—	—
	\$	\$	\$
	—	—	—
The Company issued a preferred stock dividend to satisfy the REIT distribution requirements:			
Preferred stock Series B	\$	\$	\$ 183,872
Additional paid-in capital			(183,872)
	—	—	—
	\$	\$	\$
	—	—	—
Preferred stock was converted into common stock:			
Preferred stock Series B	\$	\$	\$(105,471)
Common stock			951
Additional paid-in capital			104,520
	—	—	—
	\$	\$	\$
	—	—	—

(Continued)

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**Table of Contents****CORRECTIONS CORPORATION OF AMERICA AND SUBSIDIARIES****COMBINED AND CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)**

	For the Years Ended December 31,		
	2002	2001	2000
	(In thousands)		
The Company acquired the assets and liabilities of Operating Company, PMSI and JJFMSI for stock:			
Accounts receivable	\$	\$	\$(133,667)
Receivable from affiliate			9,027
Income tax receivable			(3,781)
Prepaid expenses and other current assets			(903)
Property and equipment, net			(38,475)
Notes receivable			100,756
Goodwill			(110,596)
Investment in affiliates			102,308
Deferred tax assets			37,246
Other assets			(11,767)
Accounts payable and accrued expenses			103,769
Payable to Operating Company			(18,765)
Distributions payable			31
Note payable to JJFMSI			4,000
Current portion of long-term debt			23,876
Deferred tax liabilities			2,600
Deferred gains on sales of contracts			(96,258)
Other liabilities			25,525
Common stock			217
Additional paid-in capital			29,789
Deferred compensation			(2,884)
	—	—	—
	\$	\$	\$ 22,048

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

**Table of Contents****CORRECTIONS CORPORATION OF AMERICA AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY**

For the Years Ended December 31, 2002, 2001 and 2000

	Series A Preferred Stock	Series B Preferred Stock	Common Stock	Additional Paid-In Capital	Deferred Compensation	Retained Earnings (Deficit)	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total Stockholders Equity
(In thousands)									
BALANCE, December 31, 1999	\$ 107,500	\$	\$ 1,184	\$ 1,347,318	\$ (91)	\$ (54,598)	\$ (242)	\$	\$ 1,401,071
Acquisition of Operating Company			188	28,580	(1,646)				27,122
Acquisition of PMSI			13	537	(550)				
Acquisition of JJFSMI			16	672	(688)				
Distribution to common stockholders		183,872		(184,275)					(403)
Conversion of Series B preferred stock into common stock, net		(105,482)	951	104,520					(11)
Compensation expense related to deferred stock awards and stock options			2	2,043	171				2,216
Forfeiture of restricted stock				(81)	81				
Shares issued to trustees				76					76
Dividends on preferred stock		2,252				(13,526)			(11,274)
Net loss						(730,782)			(730,782)
BALANCE, December 31, 2000	107,500	80,642	2,354	1,299,390	(2,723)	(798,906)	(242)		688,015
Comprehensive income (loss):									
Net income						25,694			25,694
Cumulative effect of accounting change								(5,023)	(5,023)
Amortization of transition adjustment								2,512	2,512
Total comprehensive income						25,694		(2,511)	23,183
Distributions to preferred stockholders		11,070				(20,024)			(8,954)
Issuance of common stock under terms of stockholder litigation			187	43,615					43,802
Amortization of deferred compensation			3	(3)	1,305				1,305
Restricted stock issuances, net of forfeitures		4,904		(3,179)	(1,735)				(10)
Reverse stock split			(2,265)	2,240					(25)
Other		(50)		(105)					(155)

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BALANCE, December 31,  
2001

<u>\$ 107,500</u>	<u>\$ 96,566</u>	<u>\$ 279</u>	<u>\$ 1,341,958</u>	<u>\$ (3,153)</u>	<u>\$ (793,236)</u>	<u>\$ (242)</u>	<u>\$ (2,511)</u>	<u>\$ 747,161</u>
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**Table of Contents****CORRECTIONS CORPORATION OF AMERICA AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY (Continued)**

	Series A Preferred Stock	Series B Preferred Stock	Common Stock	Additional Paid-In Capital	Deferred Compensation	Retained Earnings (Deficit)	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total Stockholders Equity
(In thousands)									
BALANCE, December 31, 2001	\$ 107,500	\$ 96,566	\$ 279	\$ 1,341,958	\$ (3,153)	\$ (793,236)	\$ (242)	\$ (2,511)	\$ 747,161
Comprehensive income (loss):									
Net loss						(7,916)			(7,916)
Change in fair value of interest rate cap								(964)	(964)
Amortization of transition adjustment								2,511	2,511
Total comprehensive loss						(7,916)		1,547	(6,369)
Distributions to preferred stockholders		11,834				(20,959)			(9,125)
Conversion of subordinated notes			1	1,113					1,114
Amortization of deferred compensation, net of forfeitures		(167)		(223)	1,549				1,159
Stock issuance costs				(21)					(21)
Stock options exercised				433					433
Retirement of treasury stock				(242)			242		
Retirement of Series B preferred stock		(402)		48					(354)
BALANCE, December 31, 2002	\$ 107,500	\$ 107,831	\$ 280	\$ 1,343,066	\$ (1,604)	\$ (822,111)	\$	\$ (964)	\$ 733,998

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

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**CORRECTIONS CORPORATION OF AMERICA AND SUBSIDIARIES**

**NOTES TO COMBINED AND CONSOLIDATED FINANCIAL STATEMENTS**

**December 31, 2002, 2001 and 2000**

**1. Organization and Operations**

Corrections Corporation of America (together with its subsidiaries, the Company), is the nation's largest owner and operator of privatized correctional and detention facilities and one of the largest prison operators in the United States, behind only the federal government and four states. As of December 31, 2002, the Company owned 40 correctional, detention and juvenile facilities, three of which the Company leases to other operators, and one additional facility which is not yet in operation. At December 31, 2002, the Company operated 60 facilities, including 37 facilities that it owned, with a total design capacity of approximately 59,000 beds in 21 states and the District of Columbia. See Note 24 for further discussion of transactions completed subsequent to year-end.

The Company specializes in owning, operating and managing prisons and other correctional facilities and providing inmate residential and prisoner transportation services for governmental agencies. In addition to providing the fundamental residential services relating to inmates, the Company's facilities offer a variety of rehabilitation and educational programs, including basic education, religious services, life skills and employment training and substance abuse treatment. These services are intended to help reduce recidivism and to prepare inmates for their successful reentry into society upon their release. The Company also provides health care (including medical, dental and psychiatric services), food services and work and recreational programs.

The Company's website address is [www.correctionscorp.com](http://www.correctionscorp.com). The Company makes its Form 10-K, Form 10-Q, and Form 8-K reports available on its website, free of charge, as soon as reasonably practicable after these reports are filed with or furnished to the Securities and Exchange Commission (the SEC).

***Background and Formation Transactions***

The Company, a Maryland corporation formerly known as Prison Realty Trust, Inc. (New Prison Realty), commenced operations as Prison Realty Corporation on January 1, 1999, following its mergers with each of the former Corrections Corporation of America, a Tennessee corporation (Old CCA), on December 31, 1998 and CCA Prison Realty Trust, a Maryland real estate investment trust (Old Prison Realty), on January 1, 1999 (such mergers referred to collectively herein as the 1999 Merger).

Prior to the 1999 Merger, Old Prison Realty had been a publicly traded entity operating as a real estate investment trust, or REIT, primarily in the business of owning and leasing prison facilities to private prison management companies and certain government entities. Prior to the 1999 Merger, Old CCA was also a publicly traded entity primarily in the business of owning, operating and managing prisons on behalf of government entities (as discussed further herein). Additionally, Old CCA had been Old Prison Realty's primary tenant.

Immediately prior to the 1999 Merger, Old CCA sold all of the issued and outstanding capital stock of certain wholly-owned corporate subsidiaries of Old CCA, certain management contracts and certain other non-real estate assets related thereto, to a newly formed entity, Correctional Management Services Corporation, a privately-held Tennessee corporation (Operating Company). Also immediately prior to the 1999 Merger, Old CCA sold certain management contracts and other assets and liabilities relating to government owned adult facilities to Prison Management Services, LLC (subsequently merged with Prison Management Services, Inc.) and sold certain management contracts and other assets and liabilities relating to government owned jails and juvenile facilities to Juvenile and Jail Facility Management Services, LLC (subsequently merged with Juvenile and Jail Facility Management Services, Inc.).

Effective January 1, 1999, New Prison Realty elected to qualify as a REIT for federal income tax purposes commencing with its taxable year ended December 31, 1999. Also effective January 1, 1999,

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**CORRECTIONS CORPORATION OF AMERICA AND SUBSIDIARIES**

**NOTES TO COMBINED AND CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

New Prison Realty entered into lease agreements and other agreements with Operating Company, whereby Operating Company would lease the substantial majority of New Prison Realty's facilities and Operating Company would provide certain services to New Prison Realty. Refer to Note 5 for a more complete discussion of New Prison Realty's historical relationship with Operating Company.

During 2000, the Company completed a comprehensive restructuring (the Restructuring). As part of the Restructuring, Operating Company was merged with and into a wholly-owned subsidiary of the Company on October 1, 2000 (the Operating Company Merger). Immediately prior to the Operating Company Merger, Operating Company leased from New Prison Realty 35 correctional and detention facilities. Also in connection with the Restructuring, the Company amended its charter to, among other things, remove provisions relating to the Company's operation and qualification as a REIT for federal income tax purposes commencing with its 2000 taxable year and change its name to Corrections Corporation of America.

From December 31, 1998 until December 1, 2000, the Company owned 100% of the non-voting common stock of Prison Management Services, Inc. (PMSI) and Juvenile and Jail Facility Management Services, Inc. (JJFMSI), both of which were privately-held service companies which managed certain government-owned prison and jail facilities under the Corrections Corporation of America name (together, the Service Companies). The Company was entitled to receive 95% of each company's net income, as defined, as dividends on such shares, while other outside shareholders and the wardens at the individual facilities owned 100% of the voting common stock of PMSI and JJFMSI, entitling those voting stockholders to receive the remaining 5% of each company's net income, as defined, as dividends on such shares. During September 2000, wholly-owned subsidiaries of PMSI and JJFMSI entered into separate transactions with each of PMSI's and JJFMSI's respective non-management, outside shareholders to reacquire all of the outstanding voting stock of their non-management, outside shareholders, representing 85% of the outstanding voting stock of each entity for cash payments of \$8.3 million and \$5.1 million, respectively.

On December 1, 2000, the Company completed the acquisitions of PMSI and JJFMSI. PMSI provided adult prison facility management services to government agencies pursuant to management contracts with state governmental agencies and authorities in the United States and Puerto Rico. Immediately prior to the acquisition date, PMSI had contracts to manage 11 correctional and detention facilities. JJFMSI provided juvenile and jail facility management services to government agencies pursuant to management contracts with federal, state and local government agencies and authorities in the United States and Puerto Rico and provided adult prison facility management services to certain international authorities in Australia and the United Kingdom. Immediately prior to the acquisition date, JJFMSI had contracts to manage 17 correctional and detention facilities.

***Operations***

Prior to the 1999 Merger, Old CCA operated and managed prisons and other correctional and detention facilities and provided prisoner transportation services for governmental agencies. Old CCA also provided a full range of related services to governmental agencies, including managing, financing, developing, designing and constructing new correctional and detention facilities and redesigning and renovating older facilities. Following the completion of the 1999 Merger and through September 30, 2000, New Prison Realty specialized in acquiring, developing, owning and leasing correctional and detention facilities. Following the completion of the 1999 Merger and through September 30, 2000, Operating Company was a separately owned private prison management company that operated, managed and leased the substantial majority of facilities owned by New Prison Realty under the Corrections Corporation of America name. As a result of the 1999 Merger and certain contractual relationships existing between New Prison Realty and Operating Company, New Prison Realty was dependent on Operating Company

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for a significant source of its income. In addition, New Prison Realty paid Operating Company for services rendered to New Prison Realty in the development of its correctional and detention facilities. As a result of liquidity issues facing Operating Company and New Prison Realty, the parties amended certain of the contractual agreements between New Prison Realty and Operating Company during 2000. For a more complete description of these amendments, see Note 5.

As a result of the acquisition of Operating Company on October 1, 2000 and the acquisitions of PMSI and JJFMSI on December 1, 2000, the Company now specializes in owning, operating and managing prisons and other correctional facilities and providing inmate residential and prisoner transportation services for governmental agencies.

**2. Financial Developments**

After completion of the first quarter of 1999, the first quarter in which operations were conducted in the structure after the 1999 Merger, management of the Company and management of Operating Company determined that Operating Company had not performed as well as projected. As a result, in May 1999, the Company and Operating Company amended certain of the agreements between them to provide Operating Company with additional cash flow. See Note 5 for further discussion of these amendments. The objective of these changes was to allow Operating Company to be able to continue to make its full lease payments, to allow the Company to continue to make dividend payments to its stockholders and to provide time for Operating Company to improve its operations so that it might ultimately perform as projected and be able to make its full lease payments to the Company.

However, after these changes were announced, a chain of events occurred which adversely affected both the Company and Operating Company. The Company's stock price fell dramatically, resulting in the commencement of stockholder litigation against the Company and its former directors and officers. These events made it more difficult to raise capital. A lower stock price meant that the Company had more restricted access to equity capital, and the uncertainties caused by the falling stock price made it much more difficult to obtain debt financing. The stockholder lawsuits were settled in 2001. In order to address its liquidity constraints, during the summer of 1999, the Company increased its credit facility (the Old Senior Bank Credit Facility, as also defined in Note 14) from \$650.0 million to \$1.0 billion.

In a further attempt to address the capital and liquidity constraints facing the Company and Operating Company, after failing to come to terms with certain institutional investor groups regarding strategic corporate restructuring alternatives that included a significant equity investment, during 2000 the Company determined to pursue a comprehensive restructuring on a stand-alone basis, and approved a series of agreements providing for the Restructuring. As further discussed in Note 14, the Restructuring included obtaining amendments to, and a waiver of existing defaults under, the Company's Old Senior Bank Credit Facility in June 2000 (the June 2000 Waiver and Amendment). The June 2000 Waiver and Amendment resulted from the financial condition of the Company and Operating Company, the transactions undertaken by the Company and Operating Company in an attempt to resolve the liquidity issues of the Company and Operating Company, and the previously announced restructuring transactions. In obtaining the June 2000 Waiver and Amendment, the Company agreed to complete certain transactions which were incorporated as covenants to the June 2000 Waiver and Amendment. Pursuant to these requirements, the Company was obligated to complete the Restructuring, including the Operating Company Merger, as further discussed in Note 3; the amendment of its charter to remove the requirements that it elect to be taxed as a REIT commencing with its 2000 taxable year, as further discussed in Note 15; the restructuring of management; and the distribution of shares of Series B Cumulative Convertible Preferred Stock, \$0.01 par value per share (the Series B Preferred Stock), in satisfaction of the Company's remaining 1999 REIT distribution requirement, as further discussed in Notes 13 and 19. As further discussed in Note 3, the June 2000 Waiver and Amendment also permitted



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the acquisitions of PMSI and JJFMSI. The Restructuring provided for a simplified corporate and financial structure while eliminating conflicts arising out of the landlord-tenant and debtor-creditor relationship that existed between the Company and Operating Company.

During the third quarter of 2000, the Company named a new president and chief executive officer, followed by a new chief financial officer in the fourth quarter of 2000. At the Company's 2000 annual meeting of stockholders, a newly constituted board of directors of the Company, including a majority of independent directors, was elected. During 2001, one of these directors resigned from the board of directors, while two additional directors were appointed to the board of directors, resulting in a ten-member board. The Company also appointed an additional director to the board of directors during the fourth quarter of 2002, resulting in an eleven-member board.

Following the completion of the Operating Company Merger and the acquisitions of PMSI and JJFMSI, during the fourth quarter of 2000, the Company's new management conducted strategic assessments; developed a strategic operating plan to improve the Company's financial position; developed revised projections for 2001; and evaluated the utilization of existing facilities, projects under development, excess land parcels, and identified certain of these non-strategic assets for sale. As a result of these assessments, the Company recorded non-cash impairment losses, as further discussed in Note 7.

As further discussed in Note 14, during the fourth quarter of 2000 and the first quarter of 2001, the Company negotiated modifications of certain of the financial covenants required under terms of its indebtedness. In addition, the Company obtained amendments to several of its debt agreements to remove existing events of default, to permit the issuance of additional indebtedness in partial satisfaction of its obligations in the stockholder litigation settlement, and to obtain a waiver of default of a non-financial covenant under the Old Senior Bank Credit Facility, which also cured a cross-default under the \$41.1 million convertible subordinated notes.

The Old Senior Bank Credit Facility also contained a non-financial covenant to use commercially reasonable efforts to raise \$100.0 million through equity or asset sales (excluding the securitization of lease payments or other similar transaction with respect to the Company's Agecroft facility) on or before June 30, 2001. The Company's \$41.1 million convertible subordinated notes also required the Company to register the shares into which the \$41.1 million convertible subordinated notes were convertible.

Under terms of the December 2001 Amendment and Restatement to the Old Senior Bank Credit Facility, as defined below and in Note 14, the Company's obligation to complete the capital raising event was removed. Following the filing of the Company's Form 10-K in April 2001, the Company commenced negotiations with MDP Ventures IV LLC and affiliated purchasers (collectively, "MDP"), the holders of the Company's \$41.1 million convertible subordinated notes, with respect to an amendment to the registration rights agreement to defer the Company's obligations to use its best efforts to file and maintain the registration statement to register the shares into which the convertible notes were convertible. MDP later informed the Company that it would not complete such an amendment. As a result, the Company completed and filed a shelf registration statement with the SEC on September 13, 2001, which became effective on September 26, 2001, in compliance with this obligation.

The revolving loan portion of the Old Senior Bank Credit Facility was scheduled to mature on January 1, 2002. As part of management's strategic operating plan to improve the Company's financial position, the Company committed to a plan of disposal for certain long-lived assets. During 2001, the Company received net proceeds of approximately \$138.7 million through the sale of such assets. During 2001, the Company paid-down \$189.0 million in total debt through a combination of cash generated from asset sales and internally generated cash.

The Company believed that utilizing sale proceeds to pay-down debt and the generation of \$138.6 million of operating income during 2001 from continuing and discontinued operations improved its

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leverage ratios and overall financial position, which improved its ability to renew and refinance maturing indebtedness.

As further discussed in Note 14, in December 2001, the Company completed an amendment and restatement of its existing Old Senior Bank Credit Facility (the December 2001 Amendment and Restatement, as also defined in Note 14). As part of the December 2001 Amendment and Restatement, the existing \$269.4 million revolving portion of the Old Senior Bank Credit Facility, which was scheduled to mature on January 1, 2002, was replaced with a term loan of the same amount maturing on December 31, 2002, to coincide with the maturity of the other loans under the Old Senior Bank Credit Facility.

The Company believed, and continues to believe, that a short-term extension of the revolving portion of the Old Senior Bank Credit Facility was in its best interests for a longer-term financing strategy, particularly due to difficult market conditions for the issuance of debt securities following the terrorist attacks on September 11, 2001, and during the fourth quarter of 2001. Additionally, the Company believed that certain terms of the December 2001 Amendment and Restatement, including primarily the removal of prior restrictions to pay cash dividends on shares of its Series A Preferred Stock, including all dividends in arrears, as further discussed in Notes 13 and 19, resulted in an improvement to its credit ratings, enhancing the terms of a more comprehensive refinancing.

On May 3, 2002, the Company completed a comprehensive refinancing (the Refinancing, as also defined in Note 14) of its senior indebtedness through the refinancing of its Old Senior Bank Credit Facility and the sale and issuance of \$250.0 million aggregate principal amount of 9.875% unsecured senior notes due 2009 (the 9.875% Senior Notes, as also defined in Note 14). The proceeds of the offering of the 9.875% Senior Notes were used to repay a portion of amounts outstanding under the Old Senior Bank Credit Facility, to redeem approximately \$89.2 million of the Company's existing \$100.0 million 12% Senior Notes due 2006 (the 12% Senior Notes, as also defined in Note 14) pursuant to a tender offer and consent solicitation more fully described in Note 14, and to pay related fees and expenses.

As part of the Refinancing, the Company replaced the Old Senior Bank Credit Facility with a new \$715.0 million senior secured bank credit facility (the New Senior Bank Credit Facility, as also defined in Note 14), which is comprised of a \$75.0 million revolving loan, a \$75.0 million term loan, both maturing in March 2006, and a \$565.0 million term loan maturing in March 2008. Although the Refinancing extended the Company's loan maturities, improved its credit ratings, and reduced the interest rates on its indebtedness, management continues to explore transactions to further improve the Company's capital structure.

**3. Merger Transactions**

***The 2000 Operating Company Merger and Restructuring Transactions***

In order to address liquidity and capital constraints during 2000, and pursuant to the June 2000 Waiver and Amendment, the Company entered into a series of agreements providing for the comprehensive restructuring of the Company. As a part of this Restructuring, the Company entered into an agreement and plan of merger with Operating Company, dated as of June 30, 2000, providing for the Operating Company Merger.

Effective October 1, 2000, New Prison Realty and Operating Company completed the Operating Company Merger in accordance with an agreement and plan of merger, after New Prison Realty's stockholders approved the agreement and plan of merger on September 12, 2000. In connection with the

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completion of the Operating Company Merger, New Prison Realty amended its charter to, among other things:

remove provisions relating to its qualification as a REIT for federal income tax purposes commencing with its 2000 taxable year,

change its name to Corrections Corporation of America, and

increase the amount of its authorized capital stock.

Following the completion of the Operating Company Merger, Operating Company ceased to exist, and the Company and its wholly-owned subsidiary began operating collectively under the Corrections Corporation of America name. Pursuant to the terms of the agreement and plan of merger, the Company issued approximately 0.8 million shares of its common stock valued at approximately \$10.6 million to the holders of Operating Company's voting common stock at the time of the completion of the Operating Company Merger.

On October 1, 2000, immediately prior to the completion of the Operating Company Merger, the Company purchased all of the shares of Operating Company's voting common stock held by the Baron Asset Fund (Baron) and Sodexho Alliance S.A., a French société anonyme (Sodexho), the holders of approximately 34% of the outstanding common stock of Operating Company, for an aggregate of \$16.0 million in non-cash consideration, consisting of an aggregate of approximately 1.1 million shares of the Company's common stock. In addition, the Company issued to Baron warrants to purchase approximately 142,000 shares of the Company's common stock at an exercise price of \$0.01 per share and warrants to purchase approximately 71,000 shares of the Company's common stock at an exercise price of \$14.10 per share in consideration for Baron's consent to the Operating Company Merger. The warrants issued to Baron were valued at approximately \$2.2 million. In addition, in the Operating Company Merger, the Company assumed the obligation to issue up to approximately 75,000 shares of its common stock, at an exercise price of \$33.30 per share, pursuant to the exercise of warrants to purchase common stock previously issued by Operating Company.

The Operating Company Merger was accounted for using the purchase method of accounting as prescribed by Accounting Principles Board Opinion No. 16, Business Combinations (APB 16). Accordingly, the aggregate purchase price of \$75.3 million was allocated to the assets purchased and liabilities assumed (identifiable intangibles included a workforce asset of approximately \$1.6 million, a contract acquisition cost asset of approximately \$1.5 million and a contract values liability of approximately \$26.1 million) based upon the estimated fair value at the date of acquisition. The aggregate purchase price consisted of the value of the Company's common stock and warrants issued in the transaction, the Company's net carrying amount of a \$137.0 million promissory note payable by Operating Company (the CCA Note) as of the date of acquisition (which has been extinguished), the Company's net carrying amount of deferred gains and receivables/payables between the Company and Operating Company as of the date of acquisition, and capitalized merger costs. The excess of the aggregate purchase price over the assets purchased and liabilities assumed of \$87.0 million was reflected as goodwill.

As a result of the Restructuring, all existing Operating Company Leases, the Tenant Incentive Agreement, the Trade Name Use Agreement, the Right to Purchase Agreement, the Services Agreement and the Business Development Agreement (each as defined in Note 5) were cancelled. In addition, all outstanding shares of Operating Company's non-voting common stock, all of which shares were owned by the Company, were cancelled in the Operating Company Merger.

In connection with the Restructuring, in September 2000, a wholly-owned subsidiary of PMSI purchased 85% of the outstanding voting common stock of PMSI which was held by Privatized Management Services Investors, LLC, an outside entity controlled by a director of PMSI and members of

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the director's family, for a cash purchase price of \$8.0 million. In addition, PMSI and its wholly-owned subsidiary paid the chief manager of Privatized Management Services Investors, LLC \$150,000 as compensation for expenses incurred in connection with the transaction, as well as \$125,000 in consideration for the chief manager's agreement not to engage in a business competitive to the business of PMSI for a period of one year following the completion of the transaction. Also in connection with the Restructuring, in September 2000, a wholly-owned subsidiary of JJFMSI purchased 85% of the outstanding voting common stock of JJFMSI which was held by Correctional Services Investors, LLC, an outside entity controlled by a director of JJFMSI, for a cash purchase price of \$4.8 million. In addition, JJFMSI and its wholly-owned subsidiary paid the chief manager of Correctional Services Investors, LLC \$250,000 for expenses incurred in connection with the transaction.

As a result of the acquisitions of PMSI and JJFMSI on December 1, 2000, all shares of PMSI and JJFMSI voting and non-voting common stock held by the Company and certain subsidiaries of PMSI and JJFMSI were cancelled. In connection with the acquisition of PMSI, the Company issued approximately 128,000 shares of its common stock valued at approximately \$0.6 million to the wardens of the correctional and detention facilities operated by PMSI who were the remaining shareholders of PMSI. Shares of the Company's common stock owned by the PMSI wardens are subject to vesting and forfeiture provisions under a restricted stock plan. In connection with the acquisition of JJFMSI, the Company issued approximately 160,000 shares of its common stock valued at approximately \$0.7 million to the wardens of the correctional and detention facilities operated by JJFMSI who were the remaining shareholders of JJFMSI. Shares of the Company's common stock owned by the JJFMSI wardens are subject to vesting and forfeiture provisions under a restricted stock plan.

The acquisition of PMSI was accounted for using the purchase method of accounting as prescribed by APB 16. Accordingly, the aggregate purchase price of \$43.2 million was allocated to the assets purchased and liabilities assumed (identifiable intangibles included a workforce asset of approximately \$0.5 million, a contract acquisition cost asset of approximately \$0.7 million and a contract values asset of approximately \$4.0 million) based upon the estimated fair value at the date of acquisition. The aggregate purchase price consisted of the net carrying amount of the Company's investment in PMSI less the Company's net carrying amount of deferred gains and receivables/payables between the Company and PMSI as of the date of acquisition, and capitalized merger costs. The excess of the aggregate purchase price over the assets purchased and liabilities assumed of \$12.2 million was reflected as goodwill.

The acquisition of JJFMSI was also accounted for using the purchase method of accounting as prescribed by APB 16. Accordingly, the aggregate purchase price of \$38.2 million was allocated to the assets purchased and liabilities assumed (identifiable intangibles included a workforce asset of approximately \$0.5 million, a contract acquisition cost asset of approximately \$0.5 million and a contract values liability of approximately \$3.1 million) based upon the estimated fair value at the date of acquisition. The aggregate purchase price consisted of the net carrying amount of the Company's investment in JJFMSI less the Company's net carrying amount of deferred gains and receivables/payables between the Company and JJFMSI as of the date of acquisition, and capitalized merger costs. The excess of the aggregate purchase price over the assets purchased and liabilities assumed of \$11.4 million was reflected as goodwill.

As a part of the Restructuring, CCA (UK) Limited, a company incorporated in England and Wales (CCA UK) and a wholly-owned subsidiary of JJFMSI, sold its 50% ownership interest in two international subsidiaries, Corrections Corporation of Australia Pty. Ltd., an Australian corporation (CCA Australia), and U.K. Detention Services Limited, a company incorporated in England and Wales (UKDS), to Sodexo on November 30, 2000 and December 7, 2000, respectively, for an aggregate cash purchase price of \$6.4 million. Sodexo already owned the remaining 50% interest in each of CCA Australia and UKDS. The purchase price of \$6.4 million included \$5.0 million for the purchase of UKDS.

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and \$1.4 million for the purchase of CCA Australia. JJFMSI's book basis in UKDS was \$3.4 million, which resulted in a \$1.6 million gain in the fourth quarter of 2000. JJFMSI's book basis in CCA Australia was \$5.0 million, which resulted in a \$3.6 million loss, which was recognized as a loss on sale of assets during the third quarter of 2000.

**4. Summary of Significant Accounting Policies**

***Basis of Presentation***

The combined and consolidated financial statements include the accounts of the Company on a consolidated basis with its wholly-owned subsidiaries. Management believes the comparison of the financial statements for 2000 to financial statements in subsequent years is not meaningful because the 2000 results of operations and cash flows reflect real estate activities between the Company and Operating Company for the period from January 1, 2000 through September 30, 2000 during a period of severe liquidity problems, and as of October 1, 2000, the results of operations and cash flows of the Company include the operations of the correctional and detention facilities previously leased to and managed by Operating Company. In addition, the Company's results of operations and cash flows as of and for the year ended December 31, 2000 also include the operations of the Service Companies as of December 1, 2000 (acquisition date) on a consolidated basis. For the period January 1, 2000 through August 31, 2000, the investments in the Service Companies were accounted for and were presented under the equity method of accounting. For the period from September 1, 2000 through November 30, 2000, the investments in the Service Companies were accounted for on a combined basis due to the repurchase by the wholly-owned subsidiaries of the Service Companies of the non-management, outside stockholders' equity interest in the Service Companies during September 2000. The resulting increase in the Company's assets and liabilities as of September 1, 2000 as a result of combining the balance sheets of PMSI and JJFMSI has been treated as a non-cash transaction in the accompanying combined statement of cash flows for the year ended December 31, 2000, with the September 1, 2000 combined cash balances of PMSI and JJFMSI (\$22.0 million) included in cash and cash equivalents, beginning of year. Consistent with the Company's previous financial statement presentations, the Company has presented its economic interests in each of PMSI and JJFMSI under the equity method for all periods prior to September 1, 2000. All material intercompany transactions and balances have been eliminated in combining the consolidated financial statements of the Company and its wholly-owned subsidiaries with the respective financial statements of PMSI and JJFMSI.

Although the Company's consolidated results of operations and cash flows presented in the accompanying 2000 financial statements are presented on a combined basis with the results of operations and cash flows of PMSI and JJFMSI for the period from September 1, 2000 through November 30, 2000, the Company did not control the assets and liabilities of either PMSI or JJFMSI. Additionally, the Company was only entitled to receive dividends on its non-voting common stock upon declaration by the respective boards of directors of PMSI and JJFMSI.

For the entire years ended December 31, 2002 and 2001, the Company's consolidated results of operations and cash flows reflect the results of the Company as a business specializing in owning, operating and managing prisons and other correctional facilities and providing prisoner transportation services for governmental agencies.

***Cash and Cash Equivalents***

The Company considers all liquid debt instruments with a maturity of three months or less at the time of purchase to be cash equivalents.

**Table of Contents****CORRECTIONS CORPORATION OF AMERICA AND SUBSIDIARIES****NOTES TO COMBINED AND CONSOLIDATED FINANCIAL STATEMENTS (Continued)*****Restricted Cash***

Restricted cash at December 31, 2002 was \$7.4 million, of which \$7.1 million represents cash collateral for a guarantee agreement and \$0.3 represents cash collateral for outstanding letters of credit. Restricted cash at December 31, 2001 was \$12.5 million, of which \$7.0 million represents cash collateral for a guarantee agreement and \$5.5 million represents cash collateral for outstanding letters of credit.

***Property and Equipment***

Property and equipment is carried at cost. Assets acquired by the Company in conjunction with acquisitions are recorded at estimated fair market value in accordance with the purchase method of accounting prescribed by APB 16. Betterments, renewals and significant repairs that extend the life of an asset are capitalized; other repair and maintenance costs are expensed. Interest is capitalized to the asset to which it relates in connection with the construction of major facilities. The cost and accumulated depreciation applicable to assets retired are removed from the accounts and the gain or loss on disposition is recognized in income. Depreciation is computed over the estimated useful lives of depreciable assets using the straight-line method. Useful lives for property and equipment are as follows:

Land improvements	5-20 years
Buildings and improvements	5-50 years
Equipment	3-5 years
Office furniture and fixtures	5 years

***Assets Held for Sale***

Assets held for sale are carried at the lower of cost or estimated fair value less estimated cost to sell. Depreciation is suspended during the period held for sale. A long-lived asset that is reclassified from held for sale to property and equipment, net, is measured at the lower of its carrying amount before the asset was classified as held for sale, adjusted for any depreciation expense that would have been recognized had the asset been continuously classified as held and used, or fair value at the date of the subsequent decision not to sell. Assets reclassified from held for sale have been reclassified in the balance sheets for all periods presented.

***Intangible Assets***

Intangible assets other than goodwill include value of workforce, contract acquisition costs, a customer list and contract values established in connection with certain business combinations. As described under *Recent Accounting Pronouncements* herein, value of workforce was reclassified into goodwill effective January 1, 2002. Value of workforce (as of December 31, 2001), contract acquisition costs (both included in other non-current assets in the accompanying consolidated balance sheets) and contract values (included in other non-current liabilities in the accompanying consolidated balance sheets) represent the estimated fair values of the identifiable intangibles acquired in the Operating Company Merger and in the acquisitions of the Service Companies. Prior to January 1, 2002, value of workforce was amortized into amortization expense over estimated useful lives ranging from 23 to 38 months using the straight-line method. Contract acquisition costs and contract values are generally amortized into amortization expense using the interest method over the lives of the related management contracts acquired, which range from three months to approximately 19 years. The customer list (included in other non-current assets in the accompanying consolidated balance sheet), which was acquired in connection with the acquisition of a prisoner extradition company on December 31, 2002, has an indefinite useful life and is not subject to amortization. The Company evaluates the realizability of the carrying value of its intangible assets annually, or more frequently if events or changes in circumstances indicate that the asset might be impaired. The impairment test consists of a comparison of the fair value of an intangible asset with its

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carrying amount. If the carrying amount of an intangible asset exceeds its fair value, an impairment loss shall be recognized in an amount equal to that excess. The Company also continually evaluates whether changes have occurred that would require revision of the remaining estimated useful lives of intangible assets.

***Goodwill***

Goodwill represents the cost in excess of the net assets of businesses acquired. Prior to January 1, 2002, goodwill was amortized into amortization expense over 15 years using the straight-line method. However, as further discussed under Recent Accounting Pronouncements herein, beginning January 1, 2002, goodwill is no longer subject to amortization, but is rather tested for impairment using a fair-value based approach.

***Accounting for the Impairment of Long-Lived Assets***

Long-lived assets are reviewed for impairment when circumstances indicate the carrying value of an asset may not be recoverable. For assets that are to be held and used, an impairment is recognized when the estimated undiscounted cash flows associated with the asset or group of assets is less than their carrying value. If impairment exists, an adjustment is made to write the asset down to its fair value, and a loss is recorded as the difference between the carrying value and fair value. Fair values are determined based on quoted market values, discounted cash flows or internal and external appraisals, as applicable. See Note 7 for discussion of impairment of long-lived assets.

***Investment in Direct Financing Lease***

Investment in direct financing lease represents the portion of the Company's management contract with a governmental agency that represents capitalized lease payments on buildings and equipment. The lease is accounted for using the financing method and, accordingly, the minimum lease payments to be received over the term of the lease less unearned income is capitalized as the Company's investment in the lease. Unearned income is recognized as income over the term of the lease using the interest method.

***Investment in Affiliates***

Investments in affiliates that are equal to or less than 50%-owned over which the Company can exercise significant influence are accounted for using the equity method of accounting. For the period from January 1, 2000 through August 31, 2000, the investments in the Service Companies were accounted for under the equity method of accounting. For the period from September 1, 2000 through November 30, 2000, the investments in the Service Companies are presented on a combined basis due to the repurchase by the wholly-owned subsidiaries of the Service Companies of the non-management, outside stockholders' equity interest in the Service Companies during September 2000.

***Debt Issuance Costs***

Generally, debt issuance costs, which are included in other assets in the consolidated balance sheets, are capitalized and amortized into interest expense on a straight-line basis, which is not materially different than the interest method, over the term of the related debt. However, certain debt issuance costs incurred in connection with debt refinancings are charged to expense in accordance with Emerging Issues Task Force Issue No. 96-19, Debtor's Accounting for a Modification or Exchange of Debt Instruments.

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***Deferred Gains on Sales of Contracts***

Deferred gains on sales of contracts were generated as a result of the sale of certain management contracts to Operating Company, PMSI and JJFMSI. The Company previously amortized these deferred gains into income in accordance with SEC Staff Accounting Bulletin No. 81, Gain Recognition on the Sale of a Business or Operating Asset to a Highly Leveraged Entity. The deferred gain from the sale to Operating Company was to be amortized concurrently with the receipt of the principal payments on the CCA Note, over a six-year period beginning December 31, 2003. As of the date of the Operating Company Merger, the Company had not recognized any of the deferred gain from the sale to Operating Company. The deferred gains from the sales to PMSI and JJFMSI had been amortized over a five-year period commencing January 1, 1999, which represented the average remaining lives of the contracts sold to PMSI and JJFMSI, plus any contractual renewal options. Effective with the Operating Company Merger and the acquisitions of PMSI and JJFMSI, the Company applied the unamortized balances of the deferred gains on sales of contracts in accordance with the purchase method of accounting under APB 16.

***Management and Other Revenue***

The Company maintains contracts with certain governmental entities to manage their facilities for fixed per diem rates or monthly fixed rates. The Company also maintains contracts with various federal, state and local governmental entities for the housing of inmates in company-owned facilities at fixed per diem rates. These contracts usually contain expiration dates with renewal options ranging from annual to multi-year renewals. Most of these contracts have current terms that require renewal every two to five years. Additionally, most facility management contracts contain clauses that allow the government agency to terminate a contract without cause, and are generally subject to legislative appropriations. The Company generally expects to renew these contracts for periods consistent with the remaining renewal options allowed by the contracts or other reasonable extensions; however, no assurance can be given that such renewals will be obtained. Fixed monthly rate revenue is recorded in the month earned and fixed per diem revenue is recorded based on the per diem rate multiplied by the number of inmates housed during the respective period. The Company recognizes any additional management service revenues when earned. Certain of the government agencies also have the authority to audit and investigate the Company's contracts with them. For contracts that actually or effectively provide for certain reimbursement of expenses, if the agency determines that the Company has improperly allocated costs to a specific contract, the Company may not be reimbursed for those costs and could be required to refund the amount of any such costs that have been reimbursed.

***Rental Revenue***

Rental revenues are recognized based on the terms of the Company's leases. Tenant incentive fees paid to lessees, including Operating Company prior to the Operating Company Merger, have been deferred and amortized as a reduction of rental revenue over the term of related leases. Tenant incentive fees due to Operating Company during 2000 totaling \$11.9 million were expensed as incurred.

***Self-Funded Insurance Reserves***

The Company is significantly self-insured for employee health, workers' compensation, and automobile liability insurance. As such, the Company's insurance expense is largely dependent on claims experience and the Company's ability to control its claims experience. The Company has consistently accrued the estimated liability for employee health insurance based on its history of claims experience and time lag between the incident date and the date the cost is paid by the Company. The Company has accrued the estimated liability for workers' compensation and automobile insurance based on a third-party actuarial valuation of the outstanding liabilities. These estimates could change in the future.



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**NOTES TO COMBINED AND CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

***Income Taxes***

Income taxes are accounted for under the provisions of Statement of Financial Accounting Standards No. 109, Accounting for Income Taxes ( SFAS 109 ). SFAS 109 generally requires the Company to record deferred income taxes for the tax effect of differences between book and tax bases of its assets and liabilities. For the year ended December 31, 1999, the Company elected to qualify as a REIT under the Internal Revenue Code of 1986, as amended (the Code ). In connection with the Restructuring, on September 12, 2000, the Company's stockholders approved an amendment to the Company's charter to remove provisions requiring the Company to elect to qualify and be taxed as a REIT for federal income tax purposes effective January 1, 2000. The Company has been taxed as a taxable subchapter C corporation beginning with its taxable year ended December 31, 2000. The Company recognized an income tax provision during the third quarter of 2000 for establishing net deferred tax liabilities in connection with the change in tax status, net of a valuation allowance applied to certain deferred tax assets. The Company expects to continue to operate as a taxable corporation in future years.

Deferred income taxes reflect the net tax effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Realization of the future tax benefits related to deferred tax assets is dependent on many factors, including the Company's ability to generate taxable income within the net operating loss carryforward period. Since the change in tax status in connection with the Restructuring in 2000, and as of December 31, 2002, the Company has provided a valuation allowance to substantially reserve its deferred tax assets in accordance with SFAS 109. The valuation allowance is recognized based on the weight of available evidence indicating that it is more likely than not that the deferred tax assets will not be realized. This evidence primarily consists of, but is not limited to, recurring operating losses for federal tax purposes.

The Company's assessment of the valuation allowance could change in the future. Removal of the valuation allowance in whole or in part would result in a non-cash reduction in income tax expense during the period of removal. In addition, because a portion of the valuation allowance as of December 31, 2002 was established to reserve certain deferred tax assets upon the acquisitions of PMSI and JJFMSI, in accordance with SFAS 109, removal of the valuation allowance would result in a reduction to any remaining goodwill recorded in connection with such acquisitions to the extent the reversal relates to the valuation allowance applied to deferred tax assets existing at the date PMSI and JJFMSI were acquired. If the valuation allowance as of December 31, 2002 were to be removed in its entirety, the reduction to goodwill would amount to approximately \$4.5 million. To the extent no reserve is established for the Company's deferred tax assets, future financial statements would reflect a provision for income taxes at the applicable federal and state tax rates on income before taxes.

***Foreign Currency Transactions***

During 2000, a wholly-owned subsidiary of the Company entered into a 25-year property lease with Agecroft Prison Management, Ltd. ( APM ) in connection with the construction and development of the Company's Agecroft facility, located in Salford, England. The Company also extended a working capital loan to the operator of this facility. These assets, along with various other short-term receivables, are denominated in British pounds; consequently, the Company adjusts these receivables to the current exchange rate at each balance sheet date and recognizes the unrealized currency gain or loss in current period earnings. Realized foreign currency gains or losses are recognized in operating expenses as payments are received. On April 10, 2001, the Company sold its interest in the Agecroft facility. However, the Company retained its 50% interest in APM, which has a management contract for the Agecroft facility. The Company retained and will continue to record foreign currency transaction gains and losses on the working capital loan.

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**CORRECTIONS CORPORATION OF AMERICA AND SUBSIDIARIES**

**NOTES TO COMBINED AND CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

*Fair Value of Derivative and Financial Instruments*

*Derivative Instruments*

The Company may enter into derivative financial instrument transactions from time to time in order to mitigate its interest rate risk on a related financial instrument. The Company accounts for these derivative financial instruments in accordance with Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities (SFAS 133), which became effective January 1, 2001. SFAS 133, as amended, requires that changes in a derivative's fair value be recognized currently in earnings unless specific hedge accounting criteria are met. The Company estimates the fair value of its interest rate swap and cap agreements using third-party valuation specialists and option-pricing models that value the potential for the interest rate swap agreements to become in-the-money through changes in interest rates during the remaining term of the agreements. A negative fair value represents the estimated amount the Company would have to pay to cancel the contract or transfer it to other parties.

In accordance with the Old Senior Bank Credit Facility, the Company entered into an interest rate swap agreement on \$325.0 million of floating rate debt on the Old Senior Bank Credit Facility. The Company did not meet the hedge accounting criteria for the interest rate swap agreement. As further discussed in Note 16, this interest rate swap agreement was terminated in 2002.

At December 31, 2001, the Company also had a derivative instrument associated with the issuance of a \$26.1 million promissory note due in 2009. The terms of the note, which allowed the principal balance to fluctuate dependent on the trading price of the Company's common stock, created a derivative instrument that was accounted for under the provisions of SFAS 133. As a result of the extinguishment of the note in full in January 2002, management estimated the fair value of this derivative to approximate the face amount of the note. The derivative asset offsets the face amount of the note in the consolidated balance sheet as of December 31, 2001.

The New Senior Bank Credit Facility required the Company to hedge at least \$192.0 million of the term loan portions of the facility within 60 days following the closing of the loan. In May 2002, the Company entered into an interest rate cap agreement to fulfill this requirement, capping LIBOR at 5.0% (prior to the applicable spread) on outstanding balances of \$200.0 million through the expiration of the cap agreement on May 20, 2004. As of December 31, 2002, the Company has met the hedge accounting criteria under SFAS 133 in accounting for the interest rate cap agreement. As a result, the estimated fair value of the interest rate cap agreement as of December 31, 2002 was included in other assets in the consolidated balance sheet, and the change in the fair value of the interest rate cap agreement during the year ended December 31, 2002 was reported through other comprehensive income in the statement of stockholders' equity. There can be no assurance that the interest rate cap agreement will be effective in mitigating the Company's exposure to interest rate risk in the future, or that the Company will be able to continue to meet the hedge accounting criteria under SFAS 133.

*Financial Instruments*

To meet the reporting requirements of Statement of Financial Accounting Standards No. 107, Disclosures About Fair Value of Financial Instruments (SFAS 107), the Company calculates the estimated fair value of financial instruments using quoted market prices of similar instruments or discounted cash flow techniques. At December 31, 2002 and 2001, there were no material differences

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between the carrying amounts and the estimated fair values of the Company's financial instruments, other than as follows (in thousands):

	December 31,			
	2002		2001	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Investment in direct financing lease	\$ 18,873	\$ 26,057	\$ 19,340	\$ 22,317
Note receivable from APM	\$ 5,061	\$ 9,099	\$ 4,579	\$ 6,144
Debt	\$(955,959)	\$(993,335)	\$(963,600)	\$(974,039)

***Use of Estimates in Preparation of Financial Statements***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires 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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

***Concentration of Credit Risks***

The Company's credit risks relate primarily to cash and cash equivalents, restricted cash, accounts receivable and an investment in a direct financing lease. Cash and cash equivalents and restricted cash are primarily held in bank accounts and overnight investments. The Company's accounts receivable and investment in direct financing lease represent amounts due primarily from governmental agencies. The Company's financial instruments are subject to the possibility of loss in carrying value as a result of either the failure of other parties to perform according to their contractual obligations or changes in market prices that make the instruments less valuable.

At December 31, 2002, accounts receivable included approximately \$13.8 million due from the Commonwealth of Puerto Rico, classified as current assets of discontinued operations in the accompanying consolidated balance sheet due to the termination of the Company's contracts to manage three facilities in the Commonwealth of Puerto Rico during the second and third quarters of 2002. In February 2003, the Company entered into an agreement with the Commonwealth of Puerto Rico regarding the payment and resolution of the balance of the receivable. The agreement specifies payment dates for \$11.3 million, of which \$4.7 million has been collected, with the balance to be paid upon reconciliation of invoices presented. The Company currently expects to collect the balance of the receivable and, therefore, no allowance for doubtful accounts has been established for the accounts receivable balance. However, no assurance can be given as to the timing and ultimate collectibility of the remaining amounts due.

The Company derives its revenue primarily from amounts earned under federal, state and local government management contracts. Approximately 32% and 52% of the Company's revenue was from federal and state governments, respectively, for the year ended December 31, 2002, while approximately 29% and 56% of the Company's revenue was from federal and state governments, respectively, for the year ended December 31, 2001. Management revenue from the Federal Bureau of Prisons (BOP) represents approximately 14% and 13%, respectively, of total revenue for 2002 and 2001. Management revenue from the United States Marshals Service represents approximately 11% and 9%, respectively, of total revenue for 2002 and 2001. No other customer generated more than 10% of total revenue during 2002 or 2001.

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**CORRECTIONS CORPORATION OF AMERICA AND SUBSIDIARIES**

**NOTES TO COMBINED AND CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

***Comprehensive Income***

Statement of Financial Accounting Standards No. 130, Reporting Comprehensive Income establishes standards for reporting and displaying comprehensive income and its components in a full set of general purpose financial statements. Comprehensive income encompasses all changes in stockholders' equity except those arising from transactions with stockholders.

The Company reports comprehensive income in the consolidated statements of stockholders' equity. Comprehensive income (loss) was equivalent to the Company's reported net income (loss) for the year ended December 31, 2000.

***Recent Accounting Pronouncements***

Effective January 1, 2002 the Company adopted Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets (SFAS 142), which establishes new accounting and reporting requirements for goodwill and other intangible assets. Under SFAS 142, all goodwill amortization ceased effective January 1, 2002 and goodwill attributable to each of the Company's reporting units was tested for impairment by comparing the fair value of each reporting unit with its carrying value. Fair value was determined using a collaboration of various common valuation techniques, including market multiples, discounted cash flows, and replacement cost methods. These impairment tests are required to be performed at adoption of SFAS 142 and at least annually thereafter. On an ongoing basis (absent any impairment indicators), the Company expects to perform its impairment tests during the fourth quarter, in connection with the Company's annual budgeting process.

Based on the Company's initial impairment tests, the Company recognized an impairment of \$80.3 million to write-off the carrying value of goodwill associated with the Company's locations included in the owned and managed reporting segment during the first quarter of 2002. This goodwill was established in connection with the acquisition of Operating Company. The remaining goodwill, which is associated with the facilities the Company manages but does not own, was deemed to be not impaired, and remains recorded on the balance sheet. This remaining goodwill was established in connection with the acquisitions of PMSI and JJFMSI. The implied fair value of goodwill of the locations included in the owned and managed reporting segment did not support the carrying value of any goodwill, primarily due to the highly leveraged capital structure. No impairment of goodwill allocated to the locations included in the managed-only reporting segment was deemed necessary, primarily because of the relatively minimal capital expenditure requirements, and therefore indebtedness, in connection with obtaining such management contracts. Under SFAS 142, the impairment recognized at adoption of the new rules was reflected as a cumulative effect of accounting change in the Company's statement of operations for the first quarter of 2002. Impairment adjustments recognized after adoption, if any, are required to be recognized as operating expenses.

SFAS 142 also requires certain previously separately identified intangible assets, such as workforce values, to be reclassified as goodwill. Also, during the fourth quarter of 2002, an adjustment to goodwill resulted from a change in the valuation allowance applied to certain deferred tax assets acquired in connection with the acquisitions of Operating Company, PMSI and JJFMSI. See Note 15 for further information regarding the valuation allowance. The carrying amount of goodwill attributable to locations

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included in each reportable operating segment with goodwill balances and changes therein is as follows (in thousands):

	<u>Owned and Managed Segment</u>	<u>Managed-only Segment</u>	<u>Total</u>
Balance as of December 31, 2001	\$ 79,876	\$ 24,143	\$ 104,019
Value of workforce reclassified as goodwill	400	289	689
Impairment adjustment	(80,276)		(80,276)
Change in deferred tax asset valuation allowance		(3,530)	(3,530)
	<u>          </u>	<u>          </u>	<u>          </u>
Balance as of December 31, 2002	\$	\$ 20,902	\$ 20,902
	<u>          </u>	<u>          </u>	<u>          </u>

In connection with the adoption of SFAS 142, the Company also reassessed the useful lives and the classification of its identifiable intangible assets and liabilities and determined that they continue to be appropriate. The components of the Company's intangible assets and liabilities are as follows (in thousands):

	<u>December 31, 2002</u>		<u>December 31, 2001</u>	
	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>
Contract acquisition costs	\$ 1,149	\$ (1,020)	\$ 2,659	\$ (1,754)
Customer list	561			
Contract values established in connection with certain business combinations	(38,049)	16,281	(25,215)	6,919
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total	\$ (36,339)	\$ 15,261	\$ (22,556)	\$ 5,165
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

Contract acquisition costs and the customer list are included in other non-current assets, and contract values are included in other non-current liabilities in the accompanying balance sheets. Amortization income, net of amortization expense, for intangible assets and liabilities during the years ended December 31, 2002, 2001 and 2000 was \$1.6 million, \$6.1 million and \$1.6 million, respectively. Estimated amortization income, net of amortization expense, for the five succeeding fiscal years is as follows (in thousands):

2003	\$ (3,661)
2004	(3,494)
2005	(4,332)
2006	(4,661)
2007	(4,661)

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Pro forma results of operations for the years ended December 31, 2001 and 2000 had the Company applied the non-amortization provisions of SFAS 142 in those periods are as follows (in thousands, except per share amounts):

	<b>For the Years Ended December 31,</b>	
	<b>2001</b>	<b>2000</b>
Reported net income (loss) available to common stockholders	\$ 5,670	\$ (744,308)
Add: Goodwill and workforce value amortization	8,844	1,719
Pro forma net income (loss) available to common stockholders	<u>\$ 14,514</u>	<u>\$ (742,589)</u>
Basic income (loss) per share:		
Reported net income (loss) available to common stockholders	\$ 0.23	\$ (56.68)
Goodwill and workforce value amortization	0.37	0.13
Pro forma net income (loss) available to common stockholders	<u>\$ 0.60</u>	<u>\$ (56.55)</u>
Diluted income (loss) per share:		
Reported net income (loss) available to common stockholders	\$ 0.23	\$ (56.68)
Goodwill and workforce value amortization	0.28	0.13
Pro forma net income (loss) available to common stockholders	<u>\$ 0.51</u>	<u>\$ (56.55)</u>

Effective January 1, 2002, the Company adopted Statement of Financial Accounting Standards No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets ( SFAS 144 ). SFAS 144 addresses financial accounting and reporting for the impairment or disposal of long-lived assets and supersedes Statement of Financial Accounting Standards No. 121, Accounting for the Impairment of Long-Lived Assets and Long-Lived Assets to be Disposed Of ( SFAS 121 ), and the accounting and reporting provisions of Accounting Principles Board Opinion No. 30, Reporting the Results of Operations - Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions ( APB 30 ), for the disposal of a segment of a business (as previously defined in that Opinion). SFAS 144 retains the fundamental provisions of SFAS 121 for recognizing and measuring impairment losses on long-lived assets held for use and long-lived assets to be disposed of by sale, while also resolving significant implementation issues associated with SFAS 121. Unlike SFAS 121, however, an impairment assessment under SFAS 144 will never result in a write-down of goodwill. Rather, goodwill is evaluated for impairment under SFAS 142. SFAS 144 also broadens the scope of defining discontinued operations. Under the provisions of SFAS 144, the identification and classification of a facility as held for sale, or the termination of any of the Company's management contracts for a managed-only facility, by expiration or otherwise, would result in the classification of the operating results of such facility, net of taxes, as a discontinued operation, so long as the financial results can be clearly identified, and so long as the Company does not have any significant continuing involvement in the operations of the component after the disposal or termination transaction.

Due to the sale of the Company's interest in a juvenile facility during the second quarter of 2002, as well as the termination of the Company's management contracts during the second quarter of 2002 for the Ponce Young Adult Correctional Facility and the Ponce Adult Correctional Facility and the termination of the Company's management contract during the third quarter of 2002 for the Guayama Correctional Center, in accordance with SFAS 144, the operations of these facilities, net of taxes, have been reported as discontinued operations in the Company's statements of operations for the years ended December 31, 2002 and 2001. See Note 17 for further information. The reclassification was not made on the Company's statement of operations for the year ended December 31, 2000, as the Company's discontinued operations



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**CORRECTIONS CORPORATION OF AMERICA AND SUBSIDIARIES**

**NOTES TO COMBINED AND CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

are not material in that year, and because the 2000 financial statements are not comparable to the 2001 and 2002 financial statements, as previously discussed herein.

In April 2002, the Financial Accounting Standards Board ( FASB ) issued Statement of Financial Accounting Standards No. 145, Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections ( SFAS 145 ). SFAS 145 rescinds Statement of Financial Accounting Standards No. 4, Reporting Gains and Losses from Extinguishment of Debt, which required all gains and losses from extinguishment of debt to be aggregated and, if material, classified as an extraordinary item, net of the related income tax effect. As a result, the criteria in APB 30 will now be used to classify those gains and losses. SFAS 145 amends Statement of Financial Accounting Standards No. 13, Accounting for Leases, to require that certain lease modifications that have economic effects similar to sale-leaseback transactions be accounted for in the same manner as sale-leaseback transactions. SFAS 145 also makes technical corrections to existing pronouncements. While those corrections are not substantive in nature, in some instances, they may change accounting practice. The provisions of SFAS 145 are effective for financial statements issued for fiscal years beginning after May 15, 2002, and interim periods within those fiscal years.

As further described in Note 14, during the second quarter of 2002, prior to the required adoption of SFAS 145, the Company reported an extraordinary charge of approximately \$36.7 million associated with the refinancing of the Company's senior debt in May 2002. Under SFAS 145, any gain or loss on extinguishment of debt that was classified as an extraordinary item in prior periods that does not meet the criteria in APB 30 for classification as an extraordinary item shall be reclassified. The Company plans to adopt SFAS 145 on January 1, 2003. Accordingly, in financial reporting periods after adoption, the extraordinary charge reported in the second quarter of 2002 will be reclassified.

In June 2002, the FASB issued Statement of Financial Accounting Standards No. 146, Accounting for Costs Associated with Exit or Disposal Activities ( SFAS 146 ). SFAS 146 addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force Issue No. 94-3, Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring) ( Issue 94-3 ). SFAS 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred. Under Issue 94-3, a liability for an exit cost as generally defined in Issue 94-3 was recognized at the date of an entity's commitment to an exit plan. The provisions of SFAS 146 are effective for exit or disposal activities that are initiated after December 31, 2002, with early application encouraged. Adoption of SFAS 146 is not expected to have a material impact on the Company's financial statements.

In November 2002, the FASB issued FASB Interpretation No. 45, Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others ( FIN 45 ). FIN 45 requires that the guarantor recognize, at the inception of certain guarantees, a liability for the fair value of the obligation undertaken in issuing such guarantees. FIN 45 also requires additional disclosure requirements about the guarantor's obligations under certain guarantees that it has issued. The initial recognition and measurement provisions of this interpretation are applicable on a prospective basis to guarantees issued or modified after December 31, 2002 and the disclosure requirements are effective for financial statement periods ending after December 15, 2002. Through December 31, 2002, adoption of FIN 45 has not had a material effect on the Company's financial statements. The future effect of FIN 45 on the Company's financial statements will depend on whether the Company enters into new, or modifies existing, guarantees.

On December 31, 2002, the FASB issued Statement of Financial Accounting Standards No. 148, Accounting for Stock-Based Compensation Transition and Disclosure ( SFAS 148 ). SFAS 148 amends Statement of Financial Accounting Standards No. 123 Accounting for Stock-Based Compensation ( SFAS 123 ), to provide alternative methods of transition to SFAS 123's fair value method of



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accounting for stock-based employee compensation. SFAS 148 also amends the disclosure provisions of SFAS 123 and APB Opinion No. 28, Interim Financial Reporting, to require disclosure in the summary of significant accounting policies of the effects of an entity's accounting policy with respect to stock-based employee compensation on reported net income and earnings per share in annual and interim financial statements. While SFAS 148 does not amend SFAS 123 to require companies to account for employee stock options using the fair value method, the disclosure provisions of SFAS 148 are applicable to all companies with stock-based employee compensation, regardless of whether they account for the compensation using the fair value method of SFAS 123 or the intrinsic value method of Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees (APB 25). See below for the required disclosures under SFAS 148.

At December 31, 2002, the Company had equity incentive plans, which are described more fully in Note 19. The Company accounts for those plans under the recognition and measurement principles of APB 25. No employee compensation cost for the Company's stock options is reflected in net income, as all options granted under those plans had an exercise price equal to the market value of the underlying common stock on the date of grant. The following table illustrates the effect on net income and earnings per share for the years ended December 31 2002, 2001, and 2000 if the Company had applied the fair value recognition provisions of SFAS 123, to stock-based employee compensation.

	For the Years Ended December 31,		
	2002	2001	2000
(In thousands, except per share data)			
<b>As Reported:</b>			
Income (loss) from continuing operations and after preferred stock distributions	\$ 87,390	\$ (1,967)	\$ (744,308)
Income from discontinued operations, net of taxes	681	7,637	
Extraordinary charge	(36,670)		
Cumulative effect of accounting change	(80,276)		
	—————	—————	—————
Net income (loss) available to common stockholders	\$ (28,875)	\$ 5,670	\$ (744,308)
	—————	—————	—————
<b>Pro Forma:</b>			
Income (loss) from continuing operations and after preferred stock distributions	\$ 82,229	\$ (6,203)	\$ (745,598)
Income from discontinued operations, net of taxes	681	7,637	
Extraordinary charge	(36,670)		
Cumulative effect of accounting change	(80,276)		
	—————	—————	—————
Net income (loss) available to common stockholders	\$ (34,036)	\$ 1,434	\$ (745,598)
	—————	—————	—————
<b>As Reported:</b>			
Basic earnings (loss) per share:			
Income (loss) from continuing operations	\$ 3.17	\$ (0.08)	\$ (56.68)
Income from discontinued operations, net of taxes	0.02	0.31	
Extraordinary charge	(1.33)		
Cumulative effect of accounting change	(2.90)		
	—————	—————	—————
Net income (loss) available to common stockholders	\$ (1.04)	\$ 0.23	\$ (56.68)
	—————	—————	—————

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	For the Years Ended December 31,		
	2002	2001	2000
(In thousands, except per share data)			
<b>As Reported:</b>			
Diluted earnings (loss) per share:			
Income (loss) from continuing operations	\$ 2.75	\$(0.08)	\$(56.68)
Income from discontinued operations, net of taxes	0.02	0.31	
Extraordinary charge	(1.03)		
Cumulative effect of accounting change	(2.26)		
	—	—	—
Net income (loss) available to common stockholders	\$(0.52)	\$ 0.23	\$(56.68)
	—	—	—
<b>Pro Forma:</b>			
Basic earnings (loss) per share:			
Income (loss) from continuing operations	\$ 2.98	\$(0.25)	\$(56.78)
Income from discontinued operations, net of taxes	0.02	0.31	
Extraordinary charge	(1.33)		
Cumulative effect of accounting change	(2.90)		
	—	—	—
Net income (loss) available to common stockholders	\$(1.23)	\$ 0.06	\$(56.78)
	—	—	—
<b>Pro Forma:</b>			
Diluted earnings (loss) per share:			
Income (loss) from continuing operations	\$ 2.60	\$(0.25)	\$(56.78)
Income from discontinued operations, net of taxes	0.02	0.31	
Extraordinary charge	(1.03)		
Cumulative effect of accounting change	(2.26)		
	—	—	—
Net income (loss) available to common stockholders	\$(0.67)	\$ 0.06	\$(56.78)
	—	—	—

The effect of applying SFAS 123 for disclosing compensation costs under such pronouncement may not be representative of the effects on reported net income (loss) available to common stockholders for future years.

**5. Historical Relationship with Operating Company**

Operating Company was a private prison management company that operated, managed and leased the substantial majority of facilities owned by the Company from January 1, 1999 through September 30, 2000. As a result of the 1999 Merger and certain contractual relationships existing between the Company and Operating Company, the Company was dependent on Operating Company for a significant source of its income. In addition, the Company was obligated to pay Operating Company tenant incentive fees and fees for services rendered to the Company in the development of its correctional and detention facilities. As of September 30, 2000 (immediately prior to the Operating Company Merger), Operating Company leased 37 of the 46 operating facilities owned by the Company.

**CCA Note**

The Company succeeded to the CCA Note as a result of the 1999 Merger. Interest on the CCA Note was payable annually at an interest rate of 12%. Principal was due in six equal annual installments of approximately \$22.8 million beginning December 31, 2003. Ten percent of the outstanding principal of the CCA Note was personally guaranteed by the Company's former chief executive officer, who also served as



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**NOTES TO COMBINED AND CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

the chief executive officer and a member of the board of directors of Operating Company. As of December 31, 1999, the first scheduled payment of interest, totaling approximately \$16.4 million, on the CCA Note was unpaid. Pursuant to the terms of the CCA Note, Operating Company was required to make the payment on December 31, 1999; however, pursuant to the terms of a subordination agreement, dated as of March 1, 1999, by and between the Company and the agent of Operating Company's revolving credit facility, Operating Company was prohibited from making the scheduled interest payment on the CCA Note when Operating Company was not in compliance with certain financial covenants under the facility. Pursuant to the terms of the subordination agreement between the Company and the agent of Operating Company's revolving credit facility, the Company was prohibited from accelerating payment of the principal amount of the CCA Note or taking any other action to enforce its rights under the provisions of the CCA Note for so long as Operating Company's revolving credit facility remained outstanding. The Company fully reserved the \$16.4 million of interest accrued under the terms of the CCA Note during 1999.

On September 29, 2000, the Company and Operating Company entered into agreements pursuant to which the Company forgave interest due under the CCA Note. The Company forgave \$27.4 million of interest accrued under the terms of the CCA Note from January 1, 1999 to August 31, 2000, all of which had been fully reserved. The Company also fully reserved the \$1.4 million of interest accrued for the month of September 2000. In connection with the Operating Company Merger, the CCA Note was assumed by the Company's wholly-owned subsidiary on October 1, 2000. The CCA Note was subsequently extinguished.

***Deferred Gain on Sale to Operating Company***

The sale of management contracts to Operating Company as part of the 1999 Merger generated a deferred gain of \$63.3 million. No amortization of the Operating Company deferred gain occurred during the period from January 1, 2000 through September 30, 2000. Effective with the Operating Company Merger on October 1, 2000, the Company applied the unamortized balance of the deferred gain on sales of contracts in accordance with the purchase method of accounting under APB 16.

***Operating Company Leases***

In order for New Prison Realty to qualify as a REIT, New Prison Realty's income generally could not include income from the operation and management of correctional and detention facilities, including those facilities operated and managed by Old CCA. Accordingly, immediately prior to the 1999 Merger, the non-real estate assets of Old CCA, including all management contracts, were sold to Operating Company and the Service Companies. On January 1, 1999, immediately after the 1999 Merger, all existing leases between Old CCA and Old Prison Realty were cancelled. Following the 1999 Merger, a substantial majority of the correctional and detention facilities acquired by New Prison Realty in the 1999 Merger were leased to Operating Company pursuant to operating leases (the "Operating Company Leases"). The terms of the Operating Company Leases were for 12 years and could be extended at fair market rates for three additional five-year periods upon the mutual agreement of the Company and Operating Company.

During the nine months ended September 30, 2000, due to Operating Company's liquidity position, Operating Company failed to make timely rental payments under the terms of the Operating Company Leases. During 2000, Operating Company paid \$31.0 million of lease payments related to 2000. For the nine months ended September 30, 2000, the Company recognized rental revenue from Operating Company of \$244.3 million and recorded a reserve of \$213.3 million, resulting in recognition of net rental revenue from Operating Company of \$31.0 million. The reserve was recorded due to the uncertainty regarding the collectibility of the revenue. In June 2000, the Operating Company Leases were amended to defer, with interest, rental payments originally due during the period from January 1, 2000 to September 2000, with

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the exception of certain installment payments. Through September 30, 2000, the Company accrued and fully reserved \$8.0 million of interest due to the Company on unpaid rental payments. On September 29, 2000, the Company and Operating Company entered into agreements pursuant to which the Company forgave all unpaid rental payments, plus accrued interest, due and payable from Operating Company through August 31, 2000, including \$190.8 million due under the Operating Company Leases and \$7.9 million of interest due on the unpaid rental payments. The Company also fully reserved the \$22.5 million of rental payments due for the month of September 2000. The Company cancelled the Operating Company Leases in connection with the Operating Company Merger.

***Tenant Incentive Arrangement***

On May 4, 1999, the Company and Operating Company entered into an amended and restated tenant incentive agreement (the Amended and Restated Tenant Incentive Agreement), effective as of January 1, 1999, providing for (i) a tenant incentive fee of up to \$4,000 per bed payable with respect to all future facilities developed and facilitated by Operating Company, as well as certain other facilities which, although operational on January 1, 1999, had not achieved full occupancy, and (ii) an \$840 per bed allowance for all beds in operation at the beginning of January 1999, approximately 21,500 beds, that were not subject to the tenant allowance in the first quarter of 1999. The amount of the amended tenant incentive fee included an allowance for rental payments to be paid by Operating Company prior to the facility reaching stabilized occupancy. The term of the Amended and Restated Tenant Incentive Agreement was four years, unless extended upon the written agreement of the Company and Operating Company. The incentive fees with Operating Company were deferred and were to be amortized as a reduction to rental revenue over the respective lease term.

During the nine months ended September 30, 2000, the Company opened two facilities and expanded three facilities that were operated and leased by Operating Company. The Company expensed the tenant incentive fees due Operating Company in 2000, totaling \$11.9 million, but made no payments to Operating Company in 2000 with respect to the Amended and Restated Tenant Incentive Agreement. On June 9, 2000, Operating Company and the Company amended the Amended and Restated Tenant Incentive Agreement to defer, with interest, payments to Operating Company by the Company pursuant to this agreement. At September 30, 2000, \$11.9 million of payments under the Amended and Restated Tenant Incentive Agreement, plus \$0.7 million of interest payments, were accrued but unpaid under the original terms of this agreement. This agreement was cancelled in connection with the Operating Company Merger on October 1, 2000, and the unpaid amounts due under this agreement, plus accrued interest, were applied in accordance with the purchase method of accounting under APB 16.

***Trade Name Use Agreement***

In connection with the 1999 Merger, Old CCA entered into a trade name use agreement with Operating Company (the Trade Name Use Agreement). Under the Trade Name Use Agreement, which had a term of ten years, Old CCA granted to Operating Company the right to use the name Corrections Corporation of America and derivatives thereof, subject to specified terms and conditions therein. The Company succeeded to this interest as a result of the 1999 Merger. In consideration for such right under the terms of the Trade Name Use Agreement, Operating Company was to pay a licensing fee equal to (i) 2.75% of the gross revenue of Operating Company for the first three years, (ii) 3.25% of Operating Company's gross revenue for the following two years, and (iii) 3.625% of Operating Company's gross revenue for the remaining term, provided that after completion of the 1999 Merger the amount of such fee could not exceed (a) 2.75% of the gross revenue of the Company for the first three years, (b) 3.5% of the Company's gross revenue for the following two years, and (c) 3.875% of the Company's gross revenue for the remaining term.

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**NOTES TO COMBINED AND CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

For the year ended December 31, 2000, the Company recognized income of \$7.6 million, from Operating Company under the terms of the Trade Name Use Agreement, all of which was collected. This agreement was cancelled in connection with the Operating Company Merger.

***Services Agreement***

On January 1, 1999, immediately after the 1999 Merger, the Company entered into a services agreement (the *Services Agreement*) with Operating Company pursuant to which Operating Company agreed to serve as a facilitator of the construction and development of additional facilities on behalf of the Company for a term of five years from the date of the *Services Agreement*. In such capacity, Operating Company agreed to perform, at the direction of the Company, such services as were customarily needed in the construction and development of correctional and detention facilities, including services related to construction of the facilities, project bidding, project design and governmental relations. In consideration for the performance of such services by Operating Company, the Company agreed to pay a fee equal to 5% of the total capital expenditures (excluding a fee equal to 4.5% of the total capital expenditures incurred in connection with the construction and development of each new facility pursuant to a business development agreement which was cancelled in connection with the Operating Company Merger, and the additional 5% fee herein referred to) incurred in connection with the construction and development of a facility, plus an amount equal to approximately \$560 per bed for facility preparation services provided by Operating Company prior to the date on which inmates were first received at such facility. The board of directors of the Company subsequently authorized payments, and pursuant to an amended and restated services agreement, dated as of March 5, 1999 (the *Amended and Restated Services Agreement*), the Company agreed to pay up to an additional 5% of the total capital expenditures (as determined above) to Operating Company if additional services were requested by the Company. A majority of the Company's development projects during 2000 were subject to a fee totaling 10%.

Costs incurred by the Company under the *Amended and Restated Services Agreement* were capitalized as part of the facilities' development cost. Costs incurred under the *Amended and Restated Services Agreement* and capitalized as part of the facilities' development cost totaled \$5.6 million for the nine months ended September 30, 2000.

On June 9, 2000, Operating Company and the Company amended the *Amended and Restated Services Agreement* to defer, with interest, payments to Operating Company by the Company pursuant to this agreement. At September 30, 2000, \$5.6 million of payments under the *Amended and Restated Services Agreement*, plus \$0.3 million of interest payments, were accrued but unpaid under the original terms of this agreement. This agreement was cancelled in connection with the Operating Company Merger and the unpaid amounts due under the agreement, plus accrued interest, were applied in accordance with the purchase method of accounting under APB 16.

**6. Property and Equipment**

At December 31, 2002, the Company owned 43 real estate properties, including 40 correctional, detention and juvenile facilities, three of which the Company leases to other operators, two corporate office buildings, and one correctional and detention facility under construction. Two of the 40 correctional and detention facilities the Company owns are substantially idle. In addition, during January 2003, the Company purchased the Crowley County Correctional Facility located in Olney Springs, Colorado. See Note 24 for further discussion of this acquisition. At December 31, 2002, the Company also managed 23 correctional and detention facilities owned by government agencies.

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Property and equipment, at cost, consists of the following:

	December 31,	
	2002	2001
	(In thousands)	
Land and improvements	\$ 33,853	\$ 33,923
Buildings and improvements	1,600,077	1,536,861
Equipment	39,214	29,357
Office furniture and fixtures	21,390	20,815
Construction in progress	44,116	101,220
	<u>1,738,650</u>	<u>1,722,176</u>
Less: Accumulated depreciation	(186,385)	(133,646)
	<u>\$ 1,552,265</u>	<u>\$ 1,588,530</u>

Depreciation expense was \$53.5 million, \$51.8 million and \$57.2 million for the years ended December 31, 2002, 2001 and 2000, respectively.

As of December 31, 2002, ten of the facilities owned by the Company are subject to options that allow various governmental agencies to purchase those facilities. In addition, three facilities, including two of which are also subject to purchase options, are constructed on land that the Company leases from governmental agencies under ground leases. Under the terms of those ground leases, the facilities become the property of the governmental agencies upon expiration of the ground leases. The Company depreciates these two properties over the terms of the applicable ground lease.

The Company's property and equipment, along with all other tangible and intangible assets of the Company, are pledged as collateral on the Company's New Senior Bank Credit Facility. See discussion of the New Senior Bank Credit Facility in Note 14.

## 7. Impairment Losses and Assets Held for Sale

As of December 31, 2001, the Company was holding for sale numerous assets, including six parcels of land, one correctional facility leased to a governmental agency, and one correctional facility leased to a private operator, with an aggregate book value of approximately \$22.3 million. During 2002, these assets were reclassified to assets held for use and are included in property and equipment, net, in the consolidated balance sheet at December 31, 2002, because the Company was unable to achieve acceptable sales prices. In accordance with SFAS 144, the assets held for sale were also reclassified to property and equipment, net, in the accompanying consolidated balance sheet at December 31, 2001. See Note 8 for further discussion of the reclassification of these assets.

Following the completion of the Operating Company Merger and the acquisitions of PMSI and JFMSI, during the fourth quarter of 2000, after considering the Company's financial condition, the Company's new management developed a strategic operating plan to improve the Company's financial position and developed revised projections to evaluate various potential transactions. Management also conducted strategic assessments and evaluated the Company's assets for impairment. Further, the Company evaluated the utilization of existing facilities, projects under development, and excess land parcels, and identified certain of these non-strategic assets for sale.

In accordance with SFAS 121, the Company estimated the undiscounted net cash flows for each of its properties and compared the sum of those undiscounted net cash flows to the Company's investment in each property. Through its analyses, the Company determined that eight of its correctional and detention





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facilities and the long-lived assets of the transportation business had been impaired. For these properties, the Company reduced the carrying values of the underlying assets to their estimated fair values, as determined based on anticipated future cash flows discounted at rates commensurate with the risks involved. The resulting impairment loss totaled \$420.5 million.

During the fourth quarter of 2000, as part of the strategic assessment, the Company's management committed to a plan of disposal for certain long-lived assets of the Company. In accordance with SFAS 121, the Company recorded losses on these assets based on the difference between the carrying value and the estimated net realizable value of the assets. The Company estimated the net realizable values of certain facilities and direct financing leases held for sale based on outstanding offers to purchase and appraisals, as well as by utilizing various financial models, including discounted cash flow analyses, less estimated costs to sell each asset. The resulting impairment loss for these assets totaled \$86.1 million.

Included in property and equipment were costs associated with the development of potential facilities. Based on the Company's strategic assessment during the fourth quarter of 2000, management decided to abandon further development of these projects and expense any amounts previously capitalized. The resulting expense totaled \$2.1 million.

During the third quarter of 2000, the Company's management determined either not to pursue further development or to reconsider the use of certain parcels of property in California, Maryland and the District of Columbia. Accordingly, the Company reduced the carrying values of the land to their estimated net realizable value, resulting in an impairment loss totaling \$19.2 million.

**8. Facility and Management Contract Changes**

During 2000, the contract to manage one of the Company's facilities located in Kentucky expired and was not renewed. Subsequent to the non-renewal of the contract, the Company sold the facility for a net sales price of approximately \$1.0 million, resulting in a gain on sale of approximately \$0.6 million during 2000, after writing-down the carrying value of this asset by \$7.1 million in 1999. Also, during 2000, Operating Company and the contracting party mutually agreed to cancel the management contracts on two facilities located in North Carolina. In March 2001, the Company sold one of these facilities, the Mountain View Correctional Facility, located in Spruce Pine, North Carolina, for a net sales price of approximately \$24.9 million. On June 28, 2001, the Company sold the other of these facilities, the Pamlico Correctional Facility, located in Bayboro, North Carolina, for a net sales price of approximately \$24.0 million. The net proceeds from both of these sales were used to pay-down a like portion of amounts outstanding under the Company's Old Senior Bank Credit Facility.

On April 10, 2001, the Company sold its interest in the Agecroft facility, located in Salford, England, for a net sales price of approximately \$65.7 million through the sale of all the issued and outstanding capital stock of Agecroft Properties, Inc., a wholly-owned subsidiary of the Company. The net proceeds from the sale were used to pay-down a like portion of amounts outstanding under the Old Senior Bank Credit Facility.

On October 3, 2001, the Company sold its Southern Nevada Women's Correctional Facility, a facility located in Las Vegas, Nevada, for a net sales price of approximately \$24.1 million. The net proceeds were used to pay-down a like portion of amounts outstanding under the Old Senior Bank Credit Facility. Subsequent to the sale, the Company continues to manage the facility pursuant to a contract with the State of Nevada.

During the fourth quarter of 2000, the Company's management committed to a plan of disposal for certain long-lived assets of the Company, including the Leo Chesney Correctional Center ( Leo Chesney ), located in Live Oak, California, and the Queensgate Correctional Facility ( Queensgate ), located in Cincinnati, Ohio. These facilities are currently leased to third party operators. The facilities,

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**NOTES TO COMBINED AND CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

with estimated net realizable values totaling \$20.6 million at December 31, 2001, were classified in the consolidated balance sheet as assets held for sale as of December 31, 2001. During the first quarter of 2002, these facilities were reclassified to assets held for use and are included in property and equipment, net, in the consolidated balance sheet at December 31, 2002, because the Company was unable to achieve acceptable sales prices. In accordance with SFAS 144, the assets held for sale were also reclassified to property and equipment, net, in the accompanying consolidated balance sheet at December 31, 2001.

During the fourth quarter of 2001, management committed to a plan to terminate a management contract at the Southwest Indiana Regional Youth Village, located in Vincennes, Indiana. During the first quarter of 2002, the Company entered into a mutual agreement with Children and Family Services Corporation ( CFSC ) to terminate the Company's management contract at Southwest Indiana Regional Youth Village, effective April 1, 2002, prior to the contract's expiration date in 2004. In connection with the mutual agreement to terminate the management contract, CFSC also paid in full an outstanding note receivable totaling approximately \$0.7 million, which was previously considered uncollectible and was fully reserved.

In late 2001 and early 2002, the Company was provided notice from the Commonwealth of Puerto Rico of its intention to terminate the management contracts at the Ponce Young Adult Correctional Facility and the Ponce Adult Correctional Facility, upon the expiration of the management contracts in February 2002. Attempts to negotiate continued operation of these facilities were unsuccessful. As a result, the transition period to transfer operation of the facilities to the Commonwealth of Puerto Rico ended May 4, 2002, at which time operation of the facilities was transferred to the Commonwealth of Puerto Rico.

On May 30, 2002, the Company was awarded a contract by the BOP to house 1,524 federal detainees at the Company's McRae Correctional Facility located in McRae, Georgia. The three-year contract, awarded as part of the Criminal Alien Requirement Phase II Solicitation, or CAR II, also provides for seven one-year renewals. The contract guarantees at least 95% occupancy on a take-or-pay basis. The facility commenced full operations December 1, 2002.

On June 28, 2002, the Company received notice from the Mississippi Department of Corrections terminating its contract to manage the Delta Correctional Facility located in Greenwood, Mississippi, due to the non-appropriation of funds. The Company ceased operations of the facility during October of 2002. However, the State of Mississippi agreed to expand the management contract at the Wilkinson County Correctional Facility to accommodate an additional 100 inmates.

During the fourth quarter of 2001, the Company obtained an extension of its management contract with the Commonwealth of Puerto Rico for the operation of the Guayama Correctional Center located in Guayama, Puerto Rico, through December 2006. However, on May 7, 2002, the Company received notice from the Commonwealth of Puerto Rico terminating the Company's contract to manage this facility, which occurred on August 6, 2002.

On September 30, 2002, the Company announced a contract award from the State of Wisconsin to house up to a total of 5,500 medium-security Wisconsin inmates. The new contract replaced an existing contract between the Company and the State of Wisconsin effective December 22, 2002. As of December 31, 2002, the Company managed approximately 3,500 Wisconsin inmates under the contract.

On October 28, 2002, the Company announced a lease of its Whiteville, Tennessee facility to Hardeman County, Tennessee which has contracted with the State of Tennessee to manage up to 1,536 inmates. The Company has contracted with Hardeman County to manage the inmates housed in the Whiteville facility.

Refer to Note 24 for changes subsequent to year-end.

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**NOTES TO COMBINED AND CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**9. Investments in Affiliates**

In connection with the 1999 Merger, Old CCA received 100% of the non-voting common stock in each of PMSI and JJFMSI, valued at the implied fair market values of \$67.1 million and \$55.9 million, respectively. The Company succeeded to these interests as a result of the 1999 Merger. The Company's ownership of the non-voting common stock of PMSI and JJFMSI entitled the Company to receive, when and if declared by the boards of directors of the respective companies, 95% of the net income, as defined, of each company as cash dividends. Dividends were cumulative if not declared. For the year ended December 31, 2000, the Company received cash dividends from PMSI and JJFMSI totaling approximately \$4.4 million and \$2.3 million, respectively.

During the period January 1, 2000 through November 30, 2000, PMSI and JJFMSI (collectively) generated total revenue of \$279.2 million and incurred a loss before income taxes of \$0.6 million.

During 2000 and prior to the acquisition of PMSI and JJFMSI on December 1, 2000, PMSI and JJFMSI (collectively) recorded approximately \$27.3 million in expenses related to agreements with the Company and Operating Company. Of these expenses, approximately \$5.4 million were fees paid under a trade name use agreement, approximately \$9.9 million were fees paid under an administrative service agreement and approximately \$12.0 million were fees paid under an indemnification agreement with the Company.

Under the terms of the indemnification agreements with the Company, effective September 29, 2000, each of PMSI and JJFMSI agreed to pay the Company \$6.0 million in exchange for full indemnity by the Company for any and all liabilities incurred by PMSI and JJFMSI in connection with the settlement or disposition of litigation known as *Prison Acquisition Company, LLC v. Prison Realty Trust, Inc., et al.* The combined and consolidated results of operations of the Company were unaffected by the indemnification agreements.

As previously discussed in Note 4, the combined and consolidated financial statements reflect the results of operations of PMSI and JJFMSI under the equity method of accounting from January 1, 2000 through August 31, 2000, on a combined basis from September 1, 2000 through November 30, 2000, and consolidated for the month of December 2000.

The Company's 9.5% non-voting interest in Operating Company had been recorded in the 1999 Merger at its implied value of \$4.8 million. In accordance with the provisions of Accounting Principles Board Opinion No. 18, *The Equity Method of Accounting for Investments in Common Stock*, the Company applied the recognized equity in losses of Operating Company of \$19.3 million for the year ended December 31, 1999, first to reduce the Company's recorded investment in Operating Company of \$4.8 million to zero and then to reduce the carrying value of the CCA Note by the amount of the recognized equity in losses in excess of \$4.8 million. The Company's recognized equity in losses related to its investment in Operating Company for the nine months ended September 30, 2000 of \$20.6 million were applied to reduce the carrying value of the CCA Note.

For the year ended December 31, 2000, equity in losses and amortization of deferred gains were approximately \$11.6 million in losses. For the year ended December 31, 2000, the Company recognized equity in losses of PMSI and JJFMSI of approximately \$12,000 and \$870,000, respectively. In addition, for the year ended December 31, 2000, the Company recognized equity in losses of Operating Company of approximately \$20.6 million. For 2000, the amortization of the deferred gain on the sales of contracts to PMSI and JJFMSI was approximately \$6.5 million and \$3.3 million, respectively.

For the years ended December 31, 2002 and 2001, equity in loss was approximately \$0.2 million and \$0.4 million, respectively. The losses resulted from the Company's interest in APM, an entity holding the management contract for the Agecroft facility under a 25-year prison management contract with an agency

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of the U.K. government. Agecroft, located in Salford, England, was previously constructed and owned by a wholly-owned subsidiary of the Company, which was sold in April 2001, as further discussed in Note 8. As discussed in Note 4, the Company has extended a working capital loan to APM, which totaled \$6.9 million, including accrued interest, as of December 31, 2002.

**10. Investment in Direct Financing Lease**

At December 31, 2002, the Company's investment in a direct financing lease represents net receivables under a building and equipment lease between the Company and the District of Columbia for the D.C. Correctional Treatment Facility.

A schedule of future minimum rentals to be received under the direct financing lease in years subsequent to December 31, 2002, is as follows (in thousands):

2003	\$ 2,793
2004	2,793
2005	2,793
2006	2,793
2007	2,793
Thereafter	25,828
	<hr/>
Total minimum obligation	39,793
Less unearned interest income	(20,920)
Less current portion of direct financing lease	(527)
	<hr/>
Investment in direct financing lease	\$ 18,346
	<hr/>

During the years ended December 31, 2002, 2001 and 2000, the Company recorded interest income of \$2.1 million, \$4.3 million, and \$10.1 million, respectively, under its direct financing leases at the D.C. Correctional Treatment Facility and two other facilities that were sold during 2001, as further discussed in Note 8.

**11. Other Assets**

Other assets consist of the following (in thousands):

	<b>December 31,</b>	
	<b>2002</b>	<b>2001</b>
	<hr/>	<hr/>
Debt issuance costs, less accumulated amortization of \$2,487 and \$40,698	\$ 15,961	\$ 24,915
Notes receivable	5,892	6,271
Value of workforce, net		1,132
Contract acquisition costs, net	128	905
Deposits	4,714	2,680
Customer list	561	
Other	955	690
	<hr/>	<hr/>
	\$ 28,211	\$ 36,593
	<hr/>	<hr/>



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Accounts payable and accrued expenses consist of the following (in thousands):

	December 31,	
	2002	2001
Stockholder litigation settlements	\$ 5,998	\$ 5,998
Other accrued litigation	14,652	18,082
Trade accounts payable	11,483	15,036
Accrued salaries and wages	20,117	19,145
Accrued workers' compensation and auto liability	18,807	15,117
Accrued employee medical insurance	6,756	6,891
Accrued property taxes	13,945	14,578
Accrued interest	19,419	12,392
Other	41,728	36,106
	\$ 152,905	\$ 143,345

**13. Distributions to Stockholders*****Series A Preferred Stock***

On March 22, 2000, the board of directors of the Company declared a quarterly dividend on the Company's Series A Preferred Stock of \$0.50 per share to preferred stockholders of record on March 31, 2000. These dividends were paid on April 17, 2000. In connection with the June 2000 Waiver and Amendment, the Company was subsequently prohibited from declaring or paying any further dividends with respect to its outstanding Series A Preferred Stock until such time as the Company raised at least \$100.0 million in equity. Dividends with respect to the Series A Preferred Stock continued to accrue under the terms of the Company's charter until such time as payment of such dividends was permitted under the terms of the Old Senior Bank Credit Facility. Under the terms of the Company's charter, in the event dividends are unpaid and in arrears for six or more quarterly periods, the holders of the Series A Preferred Stock have the right to vote for the election of two additional directors to the board of directors. During the third quarter of 2001, the Company received a consent and waiver from its lenders under the Old Senior Bank Credit Facility, which allowed the Company's board of directors to declare a cash dividend with respect to the third quarter of 2001 on September 28, 2001. As a result of the board's declaration, the holders of the Company's Series A Preferred Stock received \$0.50 on October 15, 2001 for every share of the Series A Preferred Stock they held on the record date. Approximately \$2.2 million was paid on October 15, 2001, as a result of this dividend.

As further discussed in Note 14, on December 7, 2001, the Company completed an amendment and restatement of the Old Senior Bank Credit Facility. As a result of the December 2001 Amendment and Restatement, certain financial and non-financial covenants were amended, including the removal of prior restrictions on the Company's ability to pay cash dividends on shares of its Series A Preferred Stock. Under the terms of the December 2001 Amendment and Restatement, the Company was permitted to pay quarterly dividends, when declared by the board of directors, on the shares of its Series A Preferred Stock, including all dividends in arrears. Following the December 2001 Amendment and Restatement, on December 13, 2001, the Company's board of directors declared a cash dividend on the Series A Preferred Stock for the fourth quarter of 2001 and for the five quarters in arrears, payable on January 15, 2002. As a result of the board's declaration, the holders of the Company's Series A Preferred Stock received \$3.00 for every share of Series A Preferred Stock they held on the record date. The dividend was based on a



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dividend rate of 8% per annum of the stock's stated value of \$25.00 per share. Approximately \$12.9 million was paid on January 15, 2002, as a result of this dividend. The Company has since declared and paid a cash dividend each quarter thereafter at a rate of 8% per annum of the stock's stated value.

Quarterly distributions and the resulting tax classification for the Series A Preferred Stock distributions are as follows for the years ended December 31, 2002, 2001 and 2000:

<b>Declaration Date</b>	<b>Record Date</b>	<b>Payment Date</b>	<b>Distribution Per Share</b>	<b>Ordinary Income</b>	<b>Return of Capital</b>
03/22/00	03/31/00	04/17/00	\$ 0.50	100.0%	0.0%
09/28/01	10/05/01	10/15/01	\$ 0.50	0.0%	100.0%
12/13/01	12/31/01	01/15/02	\$ 3.00	100.0%	0.0%
03/19/02	03/28/02	04/15/02	\$ 0.50	100.0%	0.0%
06/13/02	06/28/02	07/15/02	\$ 0.50	100.0%	0.0%
09/18/02	09/30/02	10/15/02	\$ 0.50	100.0%	0.0%
12/11/02	12/31/02	01/15/03	\$ 0.50	(A)	(A)

(A) - Will be determined based on the extent the Company has current or accumulated earnings and profits in 2003.

**Series B Preferred Stock**

Under the terms of the Company's charter, as in effect prior to the Restructuring, the Company was required to elect to be taxed as a REIT for federal income tax purposes for its taxable year ended December 31, 1999. The Company, as a REIT, could not complete any taxable year with accumulated earnings and profits from a taxable corporation. Accordingly, the Company was required to distribute Old CCA's earnings and profits to which it succeeded in the 1999 Merger (the Accumulated Earnings and Profits). For the year ended December 31, 1999, the Company made approximately \$217.7 million of cash distributions related to its common stock and Series A Preferred Stock. Because the Company's Accumulated Earnings and Profits were approximately \$152.5 million, and the Company's distributions were deemed to have been paid first from those Accumulated Earnings and Profits, the Company believes the above-described distribution requirements were met. In addition to distributing its Accumulated Earnings and Profits, the Company, in order to qualify for taxation as a REIT with respect to its 1999 taxable year, was required to distribute 95.0% of its taxable income for 1999. The Company believes that this distribution requirement was satisfied by its distribution of shares of the Company's Series B Preferred Stock, as discussed below.

On September 22, 2000, the Company issued approximately 5.9 million shares of its Series B Preferred Stock to satisfy its remaining 1999 REIT distribution requirement. The distribution was made to the Company's common stockholders of record on September 14, 2000, who received five shares of Series B Preferred Stock for every 100 shares of the Company's common stock held on the record date. On November 13, 2000, the Company issued approximately 1.6 million additional shares of Series B Preferred Stock in further satisfaction of its REIT distribution requirement. This distribution was made to the Company's common stockholders of record on November 6, 2000, who received one share of Series B Preferred Stock for every 100 shares of the Company's common stock held on the record date.

The Company recorded the issuance of the Series B Preferred Stock at its stated value of \$24.46 per share, or a total of \$183.9 million. The Company has determined the distribution made on September 22, 2000 amounted to a taxable distribution by the Company of approximately \$107.6 million. The Company has also determined that the distribution made on November 13, 2000 amounted to a taxable distribution by the Company of approximately \$20.4 million. Common stockholders who received shares of Series B



**Table of Contents****CORRECTIONS CORPORATION OF AMERICA AND SUBSIDIARIES****NOTES TO COMBINED AND CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Preferred Stock in the distribution generally were required to include the taxable value of the distribution in ordinary income. Refer to Note 19 for a more complete description of the terms of Series B Preferred Stock.

On December 13, 2000, the Company's board of directors declared a paid-in-kind dividend on the shares of Series B Preferred Stock for the period from September 22, 2000 (the original date of issuance) through December 31, 2000, payable on January 2, 2001, to the holders of record of the Company's Series B Preferred Stock on December 22, 2000. As a result of the board's declaration, the holders of the Company's Series B Preferred Stock were entitled to receive approximately 3.3 shares of Series B Preferred Stock for every 100 shares of Series B Preferred Stock held by them on the record date. The number of shares to be issued as the dividend was based on a dividend rate of 12.0% per annum of the stock's stated value of \$24.46 per share. The Company has since declared and paid a paid-in-kind dividend each quarter thereafter at a rate of 12% per annum of the stock's stated value.

The fair market value per share (tax basis) assigned to the shares issued as paid-in-kind dividends for the quarterly distributions and the resulting tax classification for the Series B Preferred Stock distributions are as follows for the year ended December 31, 2002, 2001 and 2000:

<b>Declaration Date</b>	<b>Record Date</b>	<b>Payment Date</b>	<b>Fair Market Value Per Share</b>	<b>Ordinary Income</b>	<b>Return of Capital</b>
12/13/00	12/22/00	01/02/01	\$ 6.85	0.0%	100.0%
03/13/01	03/19/01	04/02/01	\$ 9.20	0.0%	100.0%
06/11/01	06/19/01	07/02/01	\$ 14.00	0.0%	100.0%
09/07/01	09/17/01	10/01/01	\$ 14.83	0.0%	100.0%
12/11/01	12/21/01	01/02/02	\$ 19.55	100.0%	0.0%
03/13/02	03/22/02	04/01/02	\$ 19.30	100.0%	0.0%
06/11/02	06/21/02	07/01/02	\$ 23.55	100.0%	0.0%
09/11/02	09/20/02	10/01/02	\$ 23.15	100.0%	0.0%
12/11/02	12/20/02	01/02/03	\$ 24.73	(A)	(A)

(A) - Will be determined based on the extent the Company has current or accumulated earnings and profits in 2003.

**Common Stock**

No quarterly distributions for common stock were made for the years ended December 31, 2002, 2001 and 2000. The New Senior Bank Credit Facility restricts the Company from declaring or paying cash dividends on its common stock. Moreover, even if such restriction is ultimately removed, the Company does not currently intend to pay dividends on its common stock in the future.

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## CORRECTIONS CORPORATION OF AMERICA AND SUBSIDIARIES

## NOTES TO COMBINED AND CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 14. Debt

Debt consists of the following:

	December 31,	
	2002	2001
	(In thousands)	
New Senior Bank Credit Facility:		
Term Loan A Facility, with quarterly principal payments of varying amounts with unpaid balance due March 31, 2006; interest payable periodically at variable interest rates. The interest rate was 4.92% at December 31, 2002	\$ 63,750	\$
Term Loan B Facility, with quarterly principal payments of varying amounts with unpaid balance due March 31, 2008; interest payable periodically at variable interest rates. The interest rate was 4.92% at December 31, 2002. (As discussed in Note 24, this loan was increased in January 2003.)	560,763	
Old Senior Bank Credit Facility:		
Term loans, with quarterly principal payments of \$2.2 million with unpaid balance due December 31, 2002; interest payable periodically at variable interest rates. The interest rate was 7.41% at December 31, 2001. This debt was refinanced in the second quarter of 2002, as further discussed below		791,906
9.875% Senior Notes, principal due at maturity in May 2009; interest payable semi-annually in May and November at 9.875%	250,000	
12.0% Senior Notes, principal due at maturity in June 2006; interest payable semi-annually in June and December at 12.0%. A substantial portion of these notes was redeemed in the second quarter of 2002 in connection with the refinancing further discussed below	10,795	100,000
10.0% Convertible Subordinated Notes, principal due at maturity in December 2008; interest payable semi-annually in June and December at 10.0%. In addition, contingent interest, with a balance of \$12.6 million at December 31, 2002, accrues at 5.5% and is payable upon each of December 31, 2003 and repayment of the notes, unless the holders convert the notes into common stock or unless the common stock meets a target price as defined in the note purchase agreement	40,000	40,000
8.0% Convertible Subordinated Notes, principal due at maturity in February 2005 with call provisions beginning in February 2003; interest payable quarterly at 8.0%	30,000	30,000
10.0% Convertible Subordinated Notes, principal due at maturity in December 2003; interest payable semi-annually at 10.0%. These notes were converted into approximately 0.1 million shares of common stock on January 14, 2002, as further discussed below		1,114
Other	651	580

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	955,959	963,600
Less: Current portion of long-term debt	(23,054)	(792,009)
	<u>          </u>	<u>          </u>
	\$932,905	\$ 171,591
	<u>          </u>	<u>          </u>

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**CORRECTIONS CORPORATION OF AMERICA AND SUBSIDIARIES**

**NOTES TO COMBINED AND CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

***Senior Bank Credit Facility***

*Old Senior Bank Credit Facility.* During 1999, in an attempt to address its liquidity constraints at that time as further described in Note 2, the Company obtained an amendment to its senior secured bank credit facility (the Old Senior Bank Credit Facility ) to increase the capacity from \$650.0 million to \$1.0 billion. The Old Senior Bank Credit Facility consisted of up to \$600.0 million of term loans with a maturity of December 31, 2002, and up to \$400.0 million of revolving loans with a maturity of January 1, 2002.

During the first quarter of 2000, the ratings on the Company's bank indebtedness, senior unsecured indebtedness and Series A Preferred Stock were lowered. As a result of these reductions, the interest rate applicable to outstanding amounts under the Old Senior Bank Credit Facility for revolving loans was increased by 0.5%, to 1.5% over the base rate and to 3.0% over the London Interbank Offered Rate ( LIBOR ); the spread for term loans remained unchanged at 2.5% for base rate loans and 4.0% for LIBOR rate loans.

During June 2000, the Company obtained a waiver and amendment to the Old Senior Bank Credit Facility that waived or addressed all then existing events of default under the provisions of the Old Senior Bank Credit Facility that resulted from: (i) the financial condition of the Company and Operating Company; (ii) the transactions undertaken by the Company and Operating Company in an attempt to resolve the liquidity issues of the Company and Operating Company; and (iii) previously announced restructuring transactions. As a result of the then existing defaults, the Company was subject to the default rate of interest, or 2.0% higher than the rates discussed above, effective from January 25, 2000 until June 9, 2000, and under terms of the June 2000 Waiver and Amendment, the interest rate spreads applicable to outstanding borrowings under the Old Senior Bank Credit Facility were increased by 0.5%. As a result, the range of the spread for the revolving loans became 1.0% to 2.75% for base rate loans and 2.5% to 4.25% for LIBOR rate loans. The resulting range of the spread for the term loans became 2.75% to 3.0% for base rate loans and 4.25% to 4.5% for LIBOR rate loans. Based on the Company's credit rating at that time, the spread for revolving loans was 2.75% for base rate loans and 4.25% for LIBOR rate loans, while the spread for term loans was 3.0% for base rate loans and 4.5% for LIBOR rate loans.

During the third and fourth quarters of 2000, the Company was not in compliance with certain applicable financial covenants contained in the Company's Old Senior Bank Credit Facility, including: (i) debt service coverage ratio; (ii) interest coverage ratio; (iii) leverage ratio; and (iv) net worth. In November 2000, the Company obtained the consent of the requisite percentage of the senior lenders (the November 2000 Consent and Amendment ) to replace previously existing financial covenants with amended financial covenants.

As a result of the November 2000 Consent and Amendment, the interest rate applicable to the Old Senior Bank Credit Facility remained unchanged from the rate stipulated in the June 2000 Waiver and Amendment. This applicable rate, however, was subject to (i) an increase of 25 basis points (0.25%) on July 1, 2001 if the Company had not prepaid \$100.0 million of the outstanding loans under the Old Senior Bank Credit Facility, and (ii) an increase of 50 basis points (0.50%) on October 1, 2001 if the Company had not prepaid an aggregate of \$200.0 million of the loans under the Old Senior Bank Credit Facility.

The Company satisfied the condition to prepay, prior to July 1, 2001, \$100.0 million of outstanding loans under the Old Senior Bank Credit Facility through the application of proceeds from the sales during the first and second quarters of 2001 of the Mountain View Correctional Facility for approximately \$24.9 million, the Pamlico Correctional Facility for approximately \$24.0 million, through the sale of all of the outstanding capital stock of Agecroft Properties, Inc., a wholly-owned subsidiary of the Company, for approximately \$65.7 million, and through the lump sum pay-down of \$35.0 million of outstanding loans under the Old Senior Bank Credit Facility with cash on hand. Although the Company applied additional

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**CORRECTIONS CORPORATION OF AMERICA AND SUBSIDIARIES**

**NOTES TO COMBINED AND CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

proceeds of approximately \$24.1 million from the sale of the Southern Nevada Women's Correctional Facility to further pay-down the Old Senior Bank Credit Facility, the Company did not satisfy the condition to prepay, prior to October 1, 2001, \$200.0 million of outstanding loans under the Old Senior Bank Credit Facility. As a result, the interest rates under the Old Senior Bank Credit Facility were increased by 0.50% until December 2001, when the Company completed an amendment and restatement of the Old Senior Bank Credit Facility (the December 2001 Amendment and Restatement). As part of the December 2001 Amendment and Restatement, the existing \$269.4 million revolving portion of the Old Senior Bank Credit Facility, which was to mature on January 1, 2002, was replaced with a term loan of the same amount maturing on December 31, 2002, to coincide with the maturity of the other \$524.7 million of term loans under the Old Senior Bank Credit Facility.

Pursuant to terms of the December 2001 Amendment and Restatement, interest on all loans under the Old Senior Bank Credit Facility was payable at a variable rate of 5.5% over LIBOR, or 4.5% over the base rate, at the Company's option. As a result of the December 2001 Amendment and Restatement, certain financial and non-financial covenants were amended, including the removal of prior restrictions on the Company's ability to pay cash dividends on its Series A Preferred Stock, including all dividends in arrears. During the first quarter of 2002, the Company paid \$12.9 million to shareholders of Series A Preferred Stock. See Note 13 for further discussion of distributions to stockholders.

*Comprehensive Refinancing.* The Company believed, and continues to believe, that a short-term extension of the revolving portion of the Old Senior Bank Credit Facility was in its best interests for a longer-term financing strategy, particularly due to difficult market conditions for the issuance of debt securities following the terrorist attacks on September 11, 2001, and during the fourth quarter of 2001. Additionally, the Company believed that certain terms of the December 2001 Amendment and Restatement, including primarily the removal of prior restrictions to pay cash dividends on shares of its Series A Preferred Stock, including all dividends in arrears, resulted in an improvement to its credit ratings, enhancing the terms of a more comprehensive refinancing.

On May 3, 2002, the Company completed a comprehensive refinancing (the Refinancing) of its senior indebtedness through the refinancing of its Old Senior Bank Credit Facility and the sale and issuance of \$250.0 million aggregate principal amount of 9.875% unsecured senior notes due 2009 (the 9.875% Senior Notes). The proceeds of the offering of the 9.875% Senior Notes were used to repay a portion of amounts outstanding under the Old Senior Bank Credit Facility, to redeem approximately \$89.2 million of the Company's existing \$100.0 million 12% Senior Notes due 2006 (the 12% Senior Notes) pursuant to a tender offer and consent solicitation more fully described below, and to pay related fees and expenses.

*New Senior Bank Credit Facility.* As part of the Refinancing, the Company obtained a new \$715.0 million senior secured bank credit facility (the New Senior Bank Credit Facility), which replaced the Old Senior Bank Credit Facility. Lehman Commercial Paper Inc. serves as administrative agent under the new facility, which is comprised of a \$75.0 million revolving loan with a term of approximately four years (the Revolving Loan), a \$75.0 million term loan with a term of approximately four years (the Term Loan A Facility), and a \$565.0 million term loan with a term of approximately six years (the Term Loan B Facility). As further discussed in Note 24, after obtaining consent of the lenders under the New Senior Bank Credit Facility, the Term Loan B Facility was increased by \$30.0 million in connection with the acquisition of a correctional facility in January 2003. All borrowings under the New Senior Bank Credit Facility initially bear interest at a base rate plus 2.5%, or LIBOR plus 3.5%, at the Company's option. The applicable margin for the Revolving Loan and the Term Loan A Facility is subject to adjustment based on the Company's leverage ratio. The Company is also required to pay a commitment fee on the difference between committed amounts and amounts actually utilized under the Revolving Loan equal to 0.50% per year subject to adjustment based on the Company's leverage ratio.

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The Revolving Loan, which currently has no amounts outstanding, will be used by the Company for working capital and general corporate needs.

The Term Loan A Facility and the Term Loan B Facility are repayable (prior to the aforementioned increase to the Term Loan B Facility subsequent to year-end) in quarterly installments in an aggregate principal amount for each year as set forth below (in thousands):

	<u>Term Loan A Facility</u>	<u>Term Loan B Facility</u>	<u>Total</u>
2003	\$ 17,250	\$ 5,650	\$ 22,900
2004	20,250	5,650	25,900
2005	21,000	5,650	26,650
2006	5,250	5,650	10,900
2007		377,138	377,138
2008		161,025	161,025
	<u>          </u>	<u>          </u>	<u>          </u>
Total	\$ 63,750	\$ 560,763	\$ 624,513
	<u>          </u>	<u>          </u>	<u>          </u>

Prepayments of loans outstanding under the New Senior Bank Credit Facility are permitted at any time without premium or penalty, upon the giving of proper notice. In addition, the Company is required to prepay amounts outstanding under the New Senior Bank Credit Facility in an amount equal to: (i) 50% of the net cash proceeds from any sale or issuance of equity securities by the Company or any of the Company's subsidiaries, subject to certain exceptions; (ii) 100% of the net cash proceeds from any incurrence of additional indebtedness (excluding certain permitted debt), subject to certain exceptions; (iii) 100% of the net cash proceeds from any sale or other disposition by the Company, or any of the Company's subsidiaries, of any assets, subject to certain exclusions and reinvestment provisions and excluding certain dispositions in the ordinary course of business; and (iv) 50% of the Company's excess cash flow (as such term is defined in the New Senior Bank Credit Facility) for each fiscal year.

The credit agreement governing the New Senior Bank Credit Facility requires the Company to meet certain financial covenants, including, without limitation, a minimum fixed charge coverage ratio, a maximum leverage ratio and a minimum interest coverage ratio. In addition, the New Senior Bank Credit Facility contains certain covenants which, among other things, limit the incurrence of additional indebtedness, investments, payment of dividends, transactions with affiliates, asset sales, acquisitions, capital expenditures, mergers and consolidations, prepayments and modifications of other indebtedness, liens and encumbrances and other matters customarily restricted in such agreements. In addition, the New Senior Bank Credit Facility is subject to certain cross-default provisions with terms of the Company's other indebtedness.

The loans and other obligations under the New Senior Bank Credit Facility are guaranteed by each of the Company's domestic subsidiaries. The Company's obligations under the New Senior Bank Credit Facility and the guarantees are secured by: (i) a perfected first priority security interest in substantially all of the Company's tangible and intangible assets and substantially all of the tangible and intangible assets of the Company's subsidiaries; and (ii) a pledge of all of the capital stock of the Company's domestic subsidiaries and 65% of the capital stock of certain of the Company's foreign subsidiaries.

As a result of the early extinguishment of the Old Senior Bank Credit Facility and the redemption of substantially all of the Company's 12% Senior Notes, further discussed below, the Company recorded an extraordinary loss of approximately \$36.7 million during the second quarter of 2002, which included the write-off of existing deferred loan costs, certain bank fees paid, premiums paid to redeem the 12% Senior Notes, and certain other costs associated with the Refinancing.

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**CORRECTIONS CORPORATION OF AMERICA AND SUBSIDIARIES**

**NOTES TO COMBINED AND CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

During 2000 the Company incurred and capitalized approximately \$9.0 million in consummating the June 2000 Waiver and Amendment, and \$0.5 million for the November 2000 Consent and Amendment. During 2001, the Company incurred and capitalized approximately \$5.8 million in consummating the 2001 December Amendment and Restatement. During 2002, the Company incurred and capitalized approximately \$16.9 million in consummating the Refinancing during 2002, including \$7.3 million associated with the New Senior Bank Credit Facility, and \$9.6 million associated with the 9.875% Senior Notes.

***9.875% Senior Notes***

Interest on the 9.875% Senior Notes accrues at the stated rate, and is payable semi-annually in arrears on May 1 and November 1 of each year. The 9.875% Senior Notes mature on May 1, 2009. At any time before May 1, 2005, the Company may redeem up to 35% of the notes with the net proceeds of certain equity offerings, as long as 65% of the aggregate principal amount of the notes remains outstanding after the redemption. The Company may redeem all or a portion of the 9.875% Senior Notes on or after May 1, 2006. Redemption prices are set forth in the indenture governing the 9.875% Senior Notes. The 9.875% Senior Notes are guaranteed on an unsecured basis by all of the Company's domestic subsidiaries.

Only July 18, 2002, pursuant to the terms and conditions of a Registration Rights Agreement by and among the Company, the Company's subsidiary guarantors, and the initial purchasers of the 9.875% Senior Notes, dated as of May 3, 2002, the Company and the Company's subsidiary guarantors filed a registration statement with the SEC relating to an offer to exchange the 9.875% Senior Notes and related guarantees that were originally issued in a private placement for publicly tradable notes and guarantees on substantially identical terms. The Registration Rights Agreement required that the Company cause the registration statement to be declared effective by the SEC within 180 days from the date of the original issuance of the 9.875% Senior Notes. The SEC declared the registration statement effective January 3, 2003, and the exchange offer was completed February 8, 2003. As a result of the delay, the Company paid \$0.1 million in liquidated damages to the holders of the notes.

In connection with the registration with the SEC of the 9.875% Senior Notes, after obtaining consent of the lenders under the New Senior Bank Credit Facility, the Company transferred the real property and related assets of the Company (as the parent corporation) to certain of its subsidiaries effective on December 27, 2002. Accordingly, the Company (as the parent corporation to its subsidiaries) has no independent assets or operations (as defined under Rule 3-10(f) of Regulation S-X). As a result of this transfer, assets with an aggregate net book value of approximately \$1.6 billion are no longer directly available to the parent corporation to satisfy the obligations under the 9.875% Senior Notes. Instead, the parent corporation must rely on distributions of the subsidiaries to satisfy its obligations under the 9.875% Senior Notes. All of the parent corporation's domestic subsidiaries, including the subsidiaries to which the assets were transferred, have provided full and unconditional guarantees of the 9.875% Senior Notes. Each of the Company's subsidiaries guaranteeing the 9.875% Senior Notes are wholly-owned subsidiaries of the Company; the subsidiary guarantees are full and unconditional and are joint and several obligations of the guarantors; and all non-guarantor subsidiaries are minor (as defined in Rule 3-10(h)(6) of Regulation S-X).

As of December 31, 2002, neither the Company nor any of its subsidiary guarantors had any material or significant restrictions on the Company's ability to obtain funds from its subsidiaries by dividend or loan or to transfer assets from such subsidiaries.

The indenture governing the 9.875% Senior Notes contains certain customary covenants that, subject to certain exceptions and qualifications, restrict the Company's ability to, among other things: make restricted payments; incur additional debt or issue certain types of preferred stock; create or permit to exist certain liens; consolidate, merge or transfer all or substantially all of the Company's assets; and enter into transactions with affiliates. In addition, if the Company sells certain assets (and generally does not use the

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**NOTES TO COMBINED AND CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

proceeds of such sales for certain specified purposes) or experiences specific kinds of changes in control, the Company must offer to repurchase all or a portion of the 9.875% Senior Notes. The offer price for the 9.875% Senior Notes in connection with an asset sale would be equal to 100% of the aggregate principal amount of the notes repurchased plus accrued and unpaid interest and liquidated damages, if any, on the notes repurchased to the date of purchase. The offer price for the 9.875% Senior Notes in connection with a change in control would be 101% of the aggregate principal amount of the notes repurchased plus accrued and unpaid interest and liquidated damages, if any, on the notes repurchased to the date of purchase. The 9.875% Senior Notes are also subject to certain cross-default provisions with the terms of the Company's other indebtedness.

***12% Senior Notes***

On June 11, 1999, the Company completed its sale and issuance of \$100.0 million aggregate principal amount of 12% Senior Notes due 2006. Interest on the 12% Senior Notes is paid semi-annually in arrears, and the 12% Senior Notes have a seven year non-callable term due June 1, 2006.

Pursuant to the terms of a tender offer and consent solicitation which expired on May 16, 2002, in connection with the Refinancing, in May 2002, the Company redeemed approximately \$89.2 million in aggregate principal amount of its 12% Senior Notes with proceeds from the issuance of the 9.875% Senior Notes. The notes were redeemed at a price of 110% of par, which included a 3% consent payment, plus accrued and unpaid interest to the payment date. In connection with the tender offer and consent solicitation, the Company received sufficient consents and amended the indenture governing the 12% Senior Notes to delete substantially all of the restrictive covenants and events of default contained therein. The amendment became operative upon the Company's purchase of the 12% Senior Notes tendered in connection with the consent.

The Company is required to pay interest semi-annually and principal upon maturity on the remaining 12% Senior Notes outstanding, in accordance with the original terms of such notes.

***\$40.0 Million Convertible Subordinated Notes***

On January 29, 1999, the Company issued \$20.0 million of convertible subordinated notes due December 2008, with interest payable semi-annually at 9.5%. This issuance constituted the second tranche of a commitment by the Company to issue an aggregate of \$40.0 million of convertible subordinated notes, with the first \$20.0 million tranche issued in December 1998 under substantially similar terms. The convertible subordinated notes (the \$40.0 Million Convertible Subordinated Notes) require that the Company revise the conversion price as a result of the payment of a dividend or the issuance of stock or convertible securities below market price. Additionally, the notes are non-callable but are redeemable on or following January 1, 2005, at a redemption price equal to 100% of the principal amount thereof.

During the first and second quarters of 2000, certain existing or potential events of default arose under the provisions of the note purchase agreement relating to the \$40.0 Million Convertible Subordinated Notes as a result of the Company's financial condition and a change of control arising from the Company's execution of certain securities purchase agreements with respect to certain proposed restructurings. This change of control gave rise to the right of MDP, the holder of the notes, to require the Company to repurchase the notes at a price of 105% of the aggregate principal amount of such notes within 45 days after the provision of written notice by such holders to the Company. In addition, the Company's defaults under the provisions of the note purchase agreement gave rise to the right of the holders of such notes to require the Company to pay an applicable default rate of interest of 20.0%. In addition to the default rate of interest, as a result of the events of default, the Company is obligated, under the original terms of the \$40.0 Million Convertible Subordinated Notes, to pay the holders of the notes contingent interest sufficient to permit the holders to receive a 15.0% rate of return (increased by 0.5%, as



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**CORRECTIONS CORPORATION OF AMERICA AND SUBSIDIARIES**

**NOTES TO COMBINED AND CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

further discussed below), excluding the effect of the default rate of interest, on the \$40.0 million principal amount. The contingent interest is payable upon each of December 31, 2003 and upon repayment of the notes, unless the holders of the notes elect to convert the notes into the Company's common stock under the terms of the note purchase agreement or unless the price of the Company's common stock meets or exceeds a target price as defined in the note purchase agreement. Such contingent interest was retroactive to the date of issuance of the notes. The contingent interest accrual as of December 31, 2002 and 2001 amounted to \$12.6 million and \$8.7 million, respectively.

In order to address the events of default discussed above, on June 30, 2000, the Company and MDP executed a waiver and amendment to the provisions of the note purchase agreement governing the notes. This waiver and amendment provided for a waiver of all existing events of default under the provisions of the note purchase agreement. In addition, the waiver and amendment to the note purchase agreement amended the economic terms of the notes to increase the applicable interest rate of the notes by 0.5% per annum from 9.5% to 10.0%, and adjusted the conversion price of the notes to a price equal to 125% of the average high and low sales price of the Company's common stock on the New York Stock Exchange (the NYSE) for a period of 20 trading days immediately following the earlier of (i) October 31, 2000 or (ii) the closing date of the Operating Company Merger. The waiver and amendment also increased the contingent interest rate to 15.5% retroactive to the date of issuance of the notes. In addition, the waiver and amendment to the note purchase agreement provided for the replacement of financial ratios applicable to the Company. The conversion price for the notes has been established at \$11.90, subject to adjustment in the future upon the occurrence of certain events, including the payment of dividends and the issuance of stock at below market prices by the Company. Under the terms of the waiver and amendment, the distribution of the Company's Series B Preferred Stock during the fourth quarter of 2000 did not cause an adjustment to the conversion price of the notes. In addition, the Company does not believe that the distribution of shares of the Company's common stock in connection with the settlement of all outstanding stockholder litigation against the Company causes an adjustment to the conversion price of the notes. MDP, however, has indicated its belief that such an adjustment is required. At an adjusted conversion price of \$11.90, the Company estimates that the \$40.0 Million Convertible Subordinated Notes are convertible into approximately 3.4 million shares of the Company's common stock.

In connection with the waiver and amendment to the note purchase agreement, the Company issued additional convertible subordinated notes containing substantially similar terms in the aggregate principal amount of \$1.1 million, which amount represented all interest owed at the default rate of interest through June 30, 2000. These additional notes were convertible, at an adjusted conversion price of \$11.90, into an additional 0.1 million shares of the Company's common stock. On January 14, 2002, MDP converted the \$1.1 million convertible subordinated notes into approximately 0.1 million shares of common stock.

The provisions of the note purchase agreement governing the \$40.0 Million Convertible Subordinated Notes contain cross-default provisions as further discussed below.

***\$30.0 Million Convertible Subordinated Notes***

The Company's \$30.0 million convertible subordinated notes due February 2005 (the \$30.0 Million Convertible Subordinated Notes), which were issued to PMI Mezzanine Fund, L.P. (PMI) on December 31, 1998, require that the Company revise the conversion price as a result of the payment of a dividend or the issuance of stock or convertible securities below market price.

Certain existing or potential events of default arose under the provisions of the note purchase agreement relating to the Company's \$30.0 Million Convertible Subordinated Notes as a result of the Company's financial condition and as a result of the Restructuring. However, on June 30, 2000, the Company and PMI executed a waiver and amendment to the provisions of the note purchase agreement governing the notes. This waiver and amendment provided for a waiver of all existing events of default

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**NOTES TO COMBINED AND CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

under the revisions of the note purchase agreement. In addition, the waiver and amendment to the note purchase agreement amended the economic terms of the notes to increase the applicable interest rate of the notes by 0.5% per annum, from 7.5% to 8.0%, and adjusted the conversion price of the notes to a price equal to 125% of the average closing price of the Company's common stock on the NYSE for a period of 30 trading days immediately following the earlier of (i) October 31, 2000 or (ii) the closing date of the Operating Company Merger. In addition, the waiver and amendment to the note purchase agreement provided for the replacement of financial ratios applicable to the Company.

The conversion price for the notes has been established at \$10.68, subject to adjustment in the future upon the occurrence of certain events, including the payment of dividends and the issuance of stock at below market prices by the Company. Under the terms of the waiver and amendment, the distribution of the Company's Series B Preferred Stock during the fourth quarter of 2000 did not cause an adjustment to the conversion price of the notes. However, the distribution of shares of the Company's common stock in connection with the settlement of all outstanding stockholder litigation against the Company will cause an adjustment to the conversion price of the notes in an amount to be determined at the time all shares of the Company's common stock are distributed pursuant to the settlement. However, the ultimate adjustment to the conversion ratio will depend on the number of shares of the Company's common stock outstanding on the date of issuance of the shares pursuant to the stockholder litigation settlement. In addition, since all of the shares have not been issued simultaneously, multiple adjustments to the conversion ratio will be required. The Company currently estimates that the \$30.0 Million Convertible Subordinated Notes will be convertible into approximately 3.4 million shares of the Company's common stock once all of the shares under the stockholder litigation settlement have been issued.

At any time after February 28, 2004, the Company may require the holder of the notes to convert all or a portion of the principal amount of the indebtedness into shares of common stock if, at such time, the current market price of the common stock has equaled or exceeded 150% of the conversion price for 45 consecutive trading days.

The provisions of the note purchase agreement governing the \$30.0 Million Convertible Subordinated Notes contain cross-default provisions as further discussed below.

***Other Debt Transactions***

At December 31, 2002 and 2001, the Company had \$17.3 million and \$5.5 million, respectively, in outstanding letters of credit. The letters of credit were issued to secure the Company's workers' compensation and general liability insurance policies, performance bonds and utility deposits. Approximately \$17.0 million of the letters of credit outstanding at December 31, 2002 are provided by a sub-facility under the New Senior Bank Credit Facility with a maximum capacity of up to \$35.0 million, thereby reducing the available capacity under the Revolving Loan to \$58.0 million.

**Table of Contents****CORRECTIONS CORPORATION OF AMERICA AND SUBSIDIARIES****NOTES TO COMBINED AND CONSOLIDATED FINANCIAL STATEMENTS (Continued)*****Debt Maturities***

Debt maturities for the next five years and thereafter are as follows (prior to the aforementioned increase in January 2003 to the Term Loan B Facility) (in thousands):

2003	\$ 23,054
2004	26,068
2005	56,834
2006	21,841
2007	377,138
Thereafter	451,024
	<u>955,959</u>

***Cross-Default Provisions***

The provisions of the Company's debt agreements relating to the New Senior Bank Credit Facility, the \$40.0 Million Convertible Subordinated Notes, the \$30.0 Million Convertible Subordinated Notes, the 9.875% Senior Notes, and the 12% Senior Notes contain certain cross-default provisions. Any events of default under the New Senior Bank Credit Facility which give rise to the ability of the lenders under the New Senior Bank Credit Facility to exercise their acceleration rights result in an event of default under the Company's \$40.0 Million Convertible Subordinated Notes. Any events of default under the New Senior Bank Credit Facility that results in the lenders' actual acceleration of amounts outstanding thereunder also result in an event of default under the Company's \$30.0 Million Convertible Subordinated Notes, and the 9.875% Senior Notes. Additionally, any events of default under the \$40.0 Million Convertible Subordinated Notes, the \$30.0 Million Convertible Subordinated Notes, the 9.875% Senior Notes, and the 12% Senior Notes which give rise to the ability of the holders of such indebtedness to exercise their acceleration rights also result in an event of default under the New Senior Bank Credit Facility.

If the Company were to be in default under the New Senior Bank Credit Facility, and if the lenders under the New Senior Bank Credit Facility elected to exercise their rights to accelerate the Company's obligations under the New Senior Bank Credit Facility, such events could result in the acceleration of all or a portion of the Company's \$40.0 Million Convertible Subordinated Notes, the \$30.0 Million Convertible Subordinated Notes, and the 9.875% Senior Notes, which would have a material adverse effect on the Company's liquidity and financial position. Additionally, under the Company's \$40.0 Million Convertible Subordinated Notes, even if the lenders under the New Senior Bank Credit Facility did not exercise their acceleration rights, the holders of the \$40.0 Million Convertible Subordinated Notes could require the Company to repurchase such notes upon an event of default under the New Senior Bank Credit Facility permitting acceleration. The Company does not have sufficient working capital to satisfy its debt obligations in the event of an acceleration of all or a substantial portion of the Company's outstanding indebtedness.

**15. Income Taxes**

In connection with the Restructuring, on September 12, 2000 the Company's stockholders approved an amendment to the Company's charter to remove provisions requiring the Company to elect to qualify and be taxed as a REIT for federal income tax purposes effective January 1, 2000. As a result of the amendment to the Company's charter, the Company has been taxed as a taxable subchapter C corporation beginning with its taxable year ended December 31, 2000. In accordance with the provisions of SFAS 109, the Company was required to establish current and deferred tax assets and liabilities in its financial

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statements in the period in which a change of tax status occurred. As such, the Company's benefit for income taxes for the year ended December 31, 2000 includes the provision associated with establishing the deferred tax assets and liabilities in connection with the change in tax status during the third quarter of 2000, net of a valuation allowance applied to certain deferred tax assets.

The benefit for income taxes is comprised of the following components (in thousands):

	<b>For the Years Ended December 31,</b>		
	<b>2002</b>	<b>2001</b>	<b>2000</b>
<b>Current provision (benefit)</b>			
Federal	\$(64,365)	\$	\$(26,593)
State	435	173	586
	<u>(63,930)</u>	<u>173</u>	<u>(26,007)</u>
<b>Deferred provision (benefit)</b>			
Federal	580	(3,169)	(19,739)
State	66	(362)	(2,256)
	<u>646</u>	<u>(3,531)</u>	<u>(21,995)</u>
<b>Income tax benefit</b>	<b><u>\$(63,284)</u></b>	<b><u>\$(3,358)</u></b>	<b><u>\$(48,002)</u></b>

Significant components of the Company's deferred tax assets and liabilities as of December 31, 2002 and 2001, are as follows (in thousands):

	<b>2002</b>	<b>2001</b>
<b>Current deferred tax assets:</b>		
Asset reserves and liabilities not yet deductible for tax	\$ 19,612	\$ 17,333
Less valuation allowance	(19,612)	(17,333)
	<u>\$</u>	<u>\$</u>
<b>Net total current deferred tax assets</b>	<b><u>\$</u></b>	<b><u>\$</u></b>
<b>Noncurrent deferred tax assets:</b>		
Asset reserves and liabilities not yet deductible for tax	\$ 5,651	\$ 10,394
Tax over book basis of certain assets	41,219	21,799
Net operating loss carryforwards	50,036	82,369
Other	24,869	18,632
	<u>121,775</u>	<u>133,194</u>
Total noncurrent deferred tax assets	121,775	133,194
Less valuation allowance	(85,881)	(133,194)
	<u>35,894</u>	<u></u>
<b>Net noncurrent deferred tax assets</b>	<b><u>35,894</u></b>	<b><u></u></b>
<b>Noncurrent deferred tax liabilities:</b>		

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Book over tax basis of certain assets	34,452	4,975
Basis difference in sale of investment		49,839
Other	1,442	1,697
	<u>          </u>	<u>          </u>
Total noncurrent deferred tax liabilities	35,894	56,511
	<u>          </u>	<u>          </u>
Net noncurrent deferred tax liabilities	\$	\$ 56,511
	<u>          </u>	<u>          </u>

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax

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purposes. Realization of the future tax benefits related to deferred tax assets is dependent on many factors, including the Company's ability to generate taxable income within the net operating loss carryforward period. Management has considered these factors in assessing the valuation allowance for financial reporting purposes. In accordance with SFAS 109, the Company has provided a valuation allowance to substantially reserve its deferred tax assets. The valuation allowance is recognized based on the weight of available evidence indicating that it is more likely than not that the deferred tax assets will not be realized. This evidence primarily consists of, but is not limited to, recurring operating losses for federal tax purposes. At December 31, 2002, the Company had net operating loss carryforwards to offset future taxable income of approximately \$101.5 million for federal income tax purposes and \$362.4 million for state income tax purposes. The carryforward period begins expiring in 2009.

A reconciliation of the income tax benefit at the statutory income tax rate and the effective tax rate as a percentage of income (loss) from continuing operations before income taxes, extraordinary charge, cumulative effect of accounting change and minority interest for the years ended December 31, 2002, 2001 and 2000 is as follows:

	<u>2002</u>	<u>2001</u>	<u>2000</u>
Statutory federal rate	35.0%	35.0%	(35.0)%
State taxes, net of federal tax benefit	4.0	4.0	(4.0)
Change in tax status			12.5
Permanent differences (primarily related to stockholder litigation and sale of a subsidiary in 2001)	2.6	(94.1)	5.9
Change in valuation allowance	(180.2)	31.1	12.2
Other items, net	(1.8)	1.2	2.2
	<u>(140.4)%</u>	<u>(22.8)%</u>	<u>(6.2)%</u>

On March 9, 2002, the Job Creation and Worker Assistance Act of 2002 was signed into law. Among other changes, the law extends the net operating loss carryback period to five years from two years for net operating losses arising in tax years ending in 2001 and 2002, and allows use of net operating loss carrybacks and carryforwards to offset 100% of the alternative minimum taxable income. The Company experienced tax losses during 2002 primarily resulting from a cumulative effect of accounting change in depreciable lives for tax purposes, and the Company experienced tax losses during 2001 resulting primarily from the sale of assets at prices below the tax basis of such assets. Under terms of the new law, the Company utilized its net operating losses to offset taxable income generated in 1997 and 1996. As a result of this tax law change in 2002, the Company received an income tax refund of approximately \$32.2 million relating to the 2001 tax year, and will be due an income tax refund of approximately \$32.1 million relating to the 2002 tax year.

The cumulative effect of accounting change in tax depreciation resulted in the establishment of a significant deferred tax liability for the tax effect of the book over tax basis of certain assets. The creation of such a deferred tax liability, and the significant improvement in tax position of the Company since the original valuation allowance was established, resulted in the reduction of the valuation allowance, generating an income tax benefit of approximately \$30.3 million during the fourth quarter of 2002, as the Company determined that substantially all of these deferred tax liabilities will be utilized to offset the reversal of deferred tax assets during the net operating loss carryforward periods. The receipt in April 2002 of an additional refund of approximately \$32.2 million relating to the 2001 tax year also reduced the valuation allowance and was reflected as an income tax benefit during the first quarter of 2002.

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**NOTES TO COMBINED AND CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The Company continues to evaluate additional tax strategies to maximize the opportunities created by the new law, which could result in an additional income tax refund and income tax benefits, although no assurance can be provided that any such tax strategies will come to fruition.

**16. Derivative Instruments and Hedging Activities**

SFAS 133, as amended, establishes accounting and reporting standards requiring that every derivative instrument be recorded in the balance sheet as either an asset or liability measured at its fair value. SFAS 133, as amended, requires that changes in a derivative's fair value be recognized currently in earnings unless specific hedge accounting criteria are met. The Company adopted SFAS 133, as amended, effective January 1, 2001. At December 31, 2002, the Company's derivative instruments included an interest rate cap agreement. In the future the Company's derivative instruments will also include a written option embedded in an 8.0%, \$2.9 million subordinated promissory note due in 2009, expected to be issued in conjunction with the issuance of shares of common stock to plaintiffs arising from the state court portion of the stockholder litigation settlement completed during 2001. As described below, the issuance of these shares, the promissory note, and the written option are currently expected to occur during 2003. Also as described below, this promissory note, and therefore the embedded written option, may be extinguished if the average closing price of the Company's common stock meets or exceeds \$16.30 per share for fifteen consecutive trading days following the note's issuance and prior to its maturity in 2009.

In accordance with the terms of the Old Senior Bank Credit Facility, the Company entered into an interest rate swap agreement in order to hedge the variable interest rate associated with portions of the debt. The swap agreement fixed LIBOR at 6.51% (prior to the applicable spread) on outstanding balances of at least \$325.0 million through its expiration on December 31, 2002. The difference between the floating rate and the swap rate was recognized in interest expense. The Company reported a transition adjustment of \$5.0 million for the reduction in the fair value of the interest rate swap agreement from its inception through the adoption of SFAS 133 on January 1, 2001, reflected in other comprehensive income (loss) effective January 1, 2001.

The Company did not meet the hedge accounting criteria for the interest rate swap agreement under SFAS 133, as amended, and thus reflected in earnings the change in the estimated fair value of the interest rate swap agreement each reporting period. In accordance with SFAS 133, as amended, the Company recorded a non-cash gain of \$2.2 million for the change in fair value of the interest rate swap agreement for the year ended December 31, 2002, which is net of \$2.5 million for amortization of the transition adjustment. The Company was no longer required to maintain the existing interest rate swap agreement due to the early extinguishment of the Old Senior Bank Credit Facility. During May 2002, the Company terminated the swap agreement prior to its expiration at a price of approximately \$8.8 million. In accordance with SFAS 133, the Company continued to amortize the unamortized portion of the transition adjustment as a non-cash expense through December 31, 2002, at which time the transition adjustment became fully amortized.

The New Senior Bank Credit Facility required the Company to hedge at least \$192.0 million of the term loan portions of the facility within 60 days following the closing of the loan. In May 2002, the Company entered into an interest rate cap agreement to fulfill this requirement, capping LIBOR at 5.0% (prior to the applicable spread) on outstanding balances of \$200.0 million through the expiration of the cap agreement on May 20, 2004. The Company paid a premium of \$1.0 million to enter into the interest rate cap agreement. The Company expects to amortize this premium as the estimated fair values assigned to each of the hedged interest payments expire throughout the term of the cap agreement, amounting to \$0.4 million in 2003, and \$0.6 million in 2004. The Company has met the hedge accounting criteria under SFAS 133 and related interpretations in accounting for the interest rate cap agreement. As a result, the estimated fair value of the interest rate cap agreement of \$36,000 as of December 31, 2002 was included

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**NOTES TO COMBINED AND CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

in other assets in the consolidated balance sheet, and the change in the fair value of the interest rate cap agreement of \$964,000 during the year ended December 31, 2002 was reported through other comprehensive income in the statement of stockholders' equity. There can be no assurance that the interest rate cap agreement will be effective in mitigating the Company's exposure to interest rate risk in the future, or that the Company will be able to continue to meet the hedge accounting criteria under SFAS 133.

On December 31, 2001, approximately 2.8 million shares of the Company's common stock were issued, along with a \$26.1 million subordinated promissory note, in conjunction with the final settlement of the federal court portion of the stockholder litigation settlement. Under the terms of the promissory note, the note and accrued interest became extinguished in January 2002 once the average closing price of the common stock exceeded a termination price equal to \$16.30 per share for fifteen consecutive trading days following the issuance of such note. The terms of the note, which allowed the principal balance to fluctuate dependent on the trading price of the Company's common stock, created a derivative instrument that was valued and accounted for under the provisions of SFAS 133. As a result of the extinguishment of the note in January 2002, management estimated the fair value of this derivative to approximate the face amount of the note, resulting in an asset being recorded in the fourth quarter of 2001. The derivative asset offsets the face amount of the note in the consolidated balance sheet as of December 31, 2001. Since the estimated fair value of the derivative asset was equal to the face amount of the note as of December 31, 2001, the extinguishment had no financial statement impact in 2002.

The change in fair value of derivative instruments during 2001 consisted of the increase in the estimated fair value of the written option embedded in the \$26.1 million subordinated promissory note, net of a decrease in the estimated fair value of the interest rate swap agreement during the year.

While the state court portion of the stockholder litigation settlement has also been settled, the payment of the settlement proceeds to the state court plaintiffs has not yet been completed; however, the settlement payment is expected to result in the issuance of approximately 0.3 million additional shares of the Company's common stock and a \$2.9 million subordinated promissory note, which may also be extinguished if the average closing price of the Company's common stock meets or exceeds \$16.30 per share for fifteen consecutive trading days following the note's issuance and prior to its maturity in 2009. Additionally, to the extent the Company's common stock price does not meet the termination price, the note will be reduced by the amount that the shares of common stock issued to the plaintiffs appreciate in value in excess of \$4.90 per share, based on the average trading price of the stock following the date of the note's issuance and prior to the maturity of the note. If the remaining promissory note is issued under the current terms, in accordance with SFAS 133, as amended, the Company will reflect in earnings the change in the estimated fair value of the written option embedded in the promissory note from quarter to quarter. Since the Company has reflected the maximum obligation of the contingency associated with the state court portion of the stockholder litigation in the accompanying consolidated balance sheet as of December 31, 2002, the issuance of the note is currently expected to have a favorable impact on the Company's consolidated financial position and results of operations initially; thereafter, the financial statement impact will fluctuate based on changes in the Company's stock price. However, the impact cannot be determined until the promissory note is issued and an estimated fair value of the derivative included in the promissory note is determined.

**17. Discontinued Operations**

The results of operations, net of taxes, and the assets and liabilities of three facilities located in the Commonwealth of Puerto Rico, and a juvenile facility located in Dallas, Texas and operated by an independent third party operator, each as further described below, have been reflected in the accompanying consolidated financial statements as discontinued operations in accordance with SFAS 144 for the years



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**NOTES TO COMBINED AND CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

ended December 31, 2002 and 2001. Because the reclassification of discontinued operations is not material in 2000, and because the 2000 financial statements are not comparable to the 2001 or 2002 financial statements, as further explained in Note 4, the reclassification was not made to the 2000 financial statements.

In late 2001 and early 2002, the Company was provided notice from the Commonwealth of Puerto Rico of its intention to terminate the management contracts at the Ponce Young Adult Correctional Facility and the Ponce Adult Correctional Facility, upon the expiration of the management contracts in February 2002. Attempts to negotiate continued operation of these facilities were unsuccessful. As a result, the transition period to transfer operation of the facilities to the Commonwealth of Puerto Rico ended May 4, 2002, at which time operation of the facilities was transferred to the Commonwealth of Puerto Rico. The Company recorded a non-cash charge of approximately \$1.8 million during the second quarter of 2002 for the write-off of the carrying value of assets associated with the terminated management contracts.

During the fourth quarter of 2001, the Company obtained an extension of its management contract with the Commonwealth of Puerto Rico for the operation of the Guayama Correctional Center located in Guayama, Puerto Rico, through December 2006. However, on May 7, 2002, the Company received notice from the Commonwealth of Puerto Rico terminating the Company's contract to manage this facility. As a result of the termination of the management contract for the Guayama Correctional Center, which occurred on August 6, 2002, in the third quarter of 2002 the operating results of this facility, net of taxes, were reported as discontinued operations.

On June 28, 2002, the Company sold its interest in a juvenile facility located in Dallas, Texas for approximately \$4.3 million. The facility was leased to a third party pursuant to a lease expiring in 2008. Net proceeds from the sale have been used for working capital purposes.

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The following table summarizes the results of operations for these facilities for the years ended December 31, 2002 and 2001 (amounts in thousands):

	<b>For the Years Ended December 31,</b>	
	<b>2002</b>	<b>2001</b>
<b>REVENUE:</b>		
Managed-only	\$ 20,178	\$ 43,725
Rental	360	713
	<u>20,538</u>	<u>44,438</u>
<b>EXPENSES:</b>		
Managed-only	17,303	32,053
Depreciation and amortization	2,509	856
	<u>19,812</u>	<u>32,909</u>
<b>OPERATING INCOME</b>	<u>726</u>	<u>11,529</u>
<b>OTHER INCOME (EXPENSE):</b>		
Interest income	575	602
Loss on disposal of assets	(20)	
	<u>555</u>	<u>602</u>
<b>INCOME BEFORE INCOME TAXES</b>	1,281	12,131
Income tax expense	(600)	(4,494)
	<u>681</u>	<u>7,637</u>
<b>INCOME FROM DISCONTINUED OPERATIONS, NET OF TAXES</b>	<u>\$ 681</u>	<u>\$ 7,637</u>

The assets and liabilities of the discontinued operations presented in the accompanying consolidated balance sheets are as follows (amounts in thousands):

	<b>December 31,</b>	
	<b>2002</b>	<b>2001</b>
<b>ASSETS</b>		
Accounts receivable	\$ 13,815	\$ 15,725
Prepaid expenses and other current assets		190
	<u>13,815</u>	<u>15,915</u>
Property and equipment, net		6,934

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Total assets	<u>\$ 13,815</u>	<u>\$ 22,849</u>
<b>LIABILITIES</b>		
Accounts payable and accrued expenses	\$ 72	\$ 1,812
Income tax payable	920	4,365
Total current liabilities	<u>\$ 992</u>	<u>\$ 6,177</u>

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**Table of Contents****CORRECTIONS CORPORATION OF AMERICA AND SUBSIDIARIES****NOTES TO COMBINED AND CONSOLIDATED FINANCIAL STATEMENTS (Continued)****18. Earnings (Loss) Per Share**

In accordance with Statement of Financial Accounting Standards No. 128, Earnings Per Share ( SFAS 128 ), basic earnings per share is computed by dividing net income (loss) available to common stockholders by the weighted average number of common shares outstanding during the year. Diluted earnings per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the entity. For the Company, diluted earnings per share is computed by dividing net income (loss), as adjusted, by the weighted average number of common shares after considering the additional dilution related to convertible subordinated notes, shares to be issued under the settlement terms of the Company's stockholder litigation, restricted common stock plans, and stock options and warrants.

A reconciliation of the numerator and denominator of the basic earnings (loss) per share computation to the numerator and denominator of the diluted earnings (loss) per share computation is as follows (in thousands, except per share data):

	For the Years Ended December 31,		
	2002	2001	2000
<b>NUMERATOR</b>			
Basic:			
Income (loss) from continuing operations before extraordinary charge and cumulative effect of accounting change and after preferred stock distributions	\$ 87,390	\$(1,967)	\$(744,308)
Income from discontinued operations, net of taxes	681	7,637	
Extraordinary charge	(36,670)		
Cumulative effect of accounting change	(80,276)		
	<u>          </u>	<u>          </u>	<u>          </u>
Net income (loss) available to common stockholders	\$ (28,875)	\$ 5,670	\$(744,308)
	<u>          </u>	<u>          </u>	<u>          </u>
Diluted:			
Income (loss) from continuing operations before extraordinary charge and cumulative effect of accounting change and after preferred stock distributions	\$ 87,390	\$(1,967)	\$(744,308)
Interest expense applicable to convertible notes	10,251		
	<u>          </u>	<u>          </u>	<u>          </u>
Diluted income (loss) from continuing operations before extraordinary charge and cumulative effect of accounting change and after preferred stock distributions	97,641	(1,967)	(744,308)
Income from discontinued operations, net of taxes	681	7,637	
Extraordinary charge	(36,670)		
Cumulative effect of accounting change	(80,276)		
	<u>          </u>	<u>          </u>	<u>          </u>
Diluted net income (loss) available to common stockholders	\$ (18,624)	\$ 5,670	\$(744,308)
	<u>          </u>	<u>          </u>	<u>          </u>

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	For the Years Ended December 31,		
	2002	2001	2000
<b>DENOMINATOR</b>			
Basic:			
Weighted average common shares outstanding	27,669	24,380	13,132
Diluted:			
Weighted average common shares outstanding	27,669	24,380	13,132
Effect of dilutive securities:			
Stock options and warrants	621		
Stockholder litigation	310		
Convertible notes	6,736		
Restricted stock-based compensation	238		
Weighted average shares and assumed conversions	35,574	24,380	13,132
<b>BASIC EARNINGS (LOSS) PER SHARE:</b>			
Income (loss) from continuing operations before extraordinary charge and cumulative effect of accounting change and after preferred stock distributions	\$ 3.17	\$ (0.08)	\$ (56.68)
Income from discontinued operations, net of taxes	0.02	0.31	
Extraordinary charge	(1.33)		
Cumulative effect of accounting change	(2.90)		
Net income (loss) available to common stockholders	\$ (1.04)	\$ 0.23	\$ (56.68)
<b>DILUTED EARNINGS (LOSS) PER SHARE:</b>			
Income (loss) from continuing operations before extraordinary charge and cumulative effect of accounting change and after preferred stock distributions	\$ 2.75	\$ (0.08)	\$ (56.68)
Income from discontinued operations, net of taxes	0.02	0.31	
Extraordinary charge	(1.03)		
Cumulative effect of accounting change	(2.26)		
Net income (loss) available to common stockholders	\$ (0.52)	\$ 0.23	\$ (56.68)

For the year ended December 31, 2001, the Company's convertible subordinated notes were convertible into 6.8 million shares of common stock, using the if-converted method. The Company's restricted stock, stock options, and warrants were convertible into 0.6 million shares for the year ended December 31, 2001, using the treasury stock method. These incremental shares were excluded from the computation of diluted earnings per share for the year ended December 31, 2001, as the effect of their inclusion was anti-dilutive.

For the year ended December 31, 2001, 3.4 million shares of common stock were contingently issuable under terms of the settlement agreement of all formerly existing stockholder litigation against the Company and certain of its existing and former directors and executive officers completed during the first quarter of 2001. These contingently issuable shares were excluded from the computation of diluted earnings per share for the year ended December 31, 2001, as the effect of their inclusion was anti-dilutive. All of these shares, with the exception of approximately 0.3 million shares, were issued during 2001.



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For the year ended December 31, 2000, the Company's stock options and warrants were convertible into 0.1 million shares of common stock, using the treasury stock method. For the year ended December 31, 2000, the Company's convertible subordinated notes were convertible into 6.3 million shares of common stock using the if-converted method. These incremental shares were excluded from the computation of diluted earnings per share for the year ended December 31, 2000 as the effect of their inclusion was anti-dilutive.

**19. Stockholders' Equity**

***Common Stock***

As a result of a one-for-ten reverse stock split effective May 18, 2001, every ten shares of the Company's common stock issued and outstanding immediately prior to the reverse stock split has been reclassified and changed into one fully paid and nonassessable share of the Company's common stock. The Company paid its registered common stockholders cash in lieu of issuing fractional shares in the reverse stock split at a post reverse-split rate of \$8.60 per share, totaling approximately \$15,000. The number of common shares and per share amounts have been retroactively restated in the accompanying financial statements and these notes to the financial statements to reflect the reduction in common shares and corresponding increase in the per share amounts resulting from the reverse stock split. In conjunction with the reverse stock split, during the second quarter of 2001, the Company amended its charter to reduce the number of shares of common stock which the Company was authorized to issue to 80.0 million shares (on a post-reverse stock split basis) from 400.0 million shares (on a pre-reverse stock split basis). As of December 31, 2002, the Company had 28.0 million shares of common stock issued and outstanding.

During 1995, Old CCA authorized the issuance of 29,500 shares of common stock to certain key employees as a deferred stock award. The award was to fully vest ten years from the date of grant based on continuous employment with the Company. The Company had been expensing the \$3.7 million of awards over the ten-year vesting period. Due to the resignation or termination of these employees, these shares (along with an additional 23,500 shares issued pursuant to an adjustment resulting from the issuance and subsequent conversion of shares of the Series B Preferred Stock as discussed below) became fully vested; therefore the Company expensed the unamortized portion of the award, totaling approximately \$1.8 million, during 2000.

***Series A Preferred Stock***

The Company has authorized 20.0 million shares of \$0.01 par value preferred stock, of which 4.3 million shares are designated as Series A Preferred Stock. The Company issued 4.3 million shares of its Series A Preferred Stock on January 1, 1999 in connection with the 1999 Merger. The shares of the Company's Series A Preferred Stock are redeemable at any time by the Company on or after January 30, 2003 at \$25.00 per share, plus dividends accrued and unpaid to the redemption date. Shares of the Company's Series A Preferred Stock have no stated maturity, sinking fund provision or mandatory redemption and are not convertible into any other securities of the Company. Dividends on shares of the Company's Series A Preferred Stock are cumulative from the date of original issue of such shares and are payable quarterly in arrears on the fifteenth day of January, April, July and October of each year, to shareholders of record on the last day of March, June, September and December of each year, respectively, at a fixed annual rate of 8.0%.

In connection with the June 2000 Waiver and Amendment, the Company was prohibited from declaring or paying any dividends with respect to the Series A Preferred Stock until such time as the Company had raised at least \$100.0 million in equity. As a result, the Company had not declared or paid any dividends on its shares of Series A Preferred Stock since the first quarter of 2000. Dividends continued to accrue under the terms of the Company's charter until the Company received a consent and waiver

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**CORRECTIONS CORPORATION OF AMERICA AND SUBSIDIARIES**

**NOTES TO COMBINED AND CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

from its lenders under the Old Senior Bank Credit Facility in September 2001, which allowed the Company's board of directors to declare a one-time quarterly dividend on the issued and outstanding Series A Preferred Stock, which was paid on October 15, 2001.

In connection with the December 2001 Amendment and Restatement of the Old Senior Bank Credit Facility, certain financial and non-financial covenants were amended, including the removal of prior restrictions on the Company's ability to pay cash dividends on shares of its issued and outstanding Series A Preferred Stock. Under the terms of the December 2001 Amendment and Restatement, the Company was permitted to pay quarterly dividends on the shares of its issued and outstanding Series A Preferred Stock, including all dividends in arrears. See Note 13 for further information on distributions on the Company's shares of Series A Preferred Stock.

***Series B Preferred Stock***

In order to satisfy the REIT distribution requirements with respect to its 1999 taxable year, during 2000 the Company authorized an additional 30.0 million shares of \$0.01 par value preferred stock, designated 12.0 million shares of such preferred stock as Series B Preferred Stock and subsequently issued approximately 7.5 million shares to holders of the Company's common stock as a stock dividend.

The shares of Series B Preferred Stock issued by the Company provide for cumulative dividends payable at a rate of 12% per year of the stock's stated value of \$24.46. The dividends are payable quarterly in arrears, in additional shares of Series B Preferred Stock through the third quarter of 2003, and in cash thereafter, provided that all accrued and unpaid cash dividends have been made on the Company's Series A Preferred Stock. The shares of the Series B Preferred Stock are callable by the Company, at a price per share equal to the stated value of \$24.46, plus any accrued dividends, at any time after six months following the later of (i) three years following the date of issuance or (ii) the 91st day following the redemption of the Company's 12% Senior Notes. The shares of Series B Preferred Stock were convertible into shares of the Company's common stock during two conversion periods: (i) from October 2, 2000 to October 13, 2000; and (ii) from December 7, 2000 to December 20, 2000, at a conversion price based on the average closing price of the Company's common stock on the NYSE during the ten trading days prior to the first day of the applicable conversion period, provided, however, that the conversion price used to determine the number of shares of the Company's common stock issuable upon conversion of the Series B Preferred Stock could not be less than \$10.00. The number of shares of the Company's common stock that were issued upon the conversion of each share of Series B Preferred Stock was calculated by dividing the stated price (\$24.46), plus accrued and unpaid dividends as of the date of conversion of each share of Series B Preferred Stock, by the conversion price established for the conversion period.

Approximately 1.3 million shares of Series B Preferred Stock issued by the Company on September 22, 2000 were converted during the first conversion period in October 2000, resulting in the issuance of approximately 2.2 million shares of the Company's common stock. The conversion price for the initial conversion period was established at \$14.80.

Approximately 2.9 million shares of Series B Preferred Stock issued by the Company on November 13, 2000 were converted during the second conversion period in December 2000, resulting in the issuance of approximately 7.3 million shares of the Company's common stock. The conversion price for the second conversion period was established at \$10.00. The shares of Series B Preferred Stock currently outstanding, as well as any additional shares issued as dividends, are not and will not be convertible into shares of the Company's common stock.

During 2002 and 2001, the Company issued 484,000 and 452,000 shares of Series B Preferred Stock, respectively, in satisfaction of the regular quarterly distributions. Additionally, as of December 31, 2002,



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**CORRECTIONS CORPORATION OF AMERICA AND SUBSIDIARIES**

**NOTES TO COMBINED AND CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

the Company has accrued approximately \$3.2 million of distributions on Series B Preferred Stock. See Note 13 for further information on distributions on the Company's shares of Series B Preferred Stock.

During 2001, the Company issued 0.2 million shares of Series B Preferred Stock under two Series B Preferred Stock restricted stock plans (the Series B Restricted Stock Plans), which were valued at \$2.0 million on the date of the award. The restricted shares of Series B Preferred Stock were granted to certain of the Company's key employees and wardens. Under the terms of the Series B Restricted Stock Plans, the shares in the key employee plan vest in equal intervals over a three-year period expiring in May 2004, while the shares in the warden plan vest all at one time in May 2004. During the years ended December 31, 2002 and 2001, the Company expensed \$0.5 million and \$0.4 million, net of forfeitures, respectively, relating to the Series B Restricted Stock Plans.

***Stock Warrants***

In connection with the Operating Company Merger, the Company issued warrants for approximately 213,000 shares of the Company's common stock as partial consideration to acquire the voting common stock of Operating Company. The warrants issued allow the holder to purchase approximately 142,000 shares of the Company's common stock at an exercise price of \$0.01 per share and approximately 71,000 shares of the Company's common stock at an exercise price of \$14.10 per share. These warrants expire September 29, 2005. Also in connection with the Operating Company Merger, the Company assumed the obligation to issue warrants for up to approximately 75,000 shares of its common stock, at a price of \$33.30 per share, through the expiration date of such warrants on December 31, 2008.

***Treasury Stock***

Treasury stock was recorded in 1999 related to the cashless exercise of stock options. The treasury stock was retired during the second quarter of 2002.

***Stock Option Plans***

The Company has equity incentive plans under which, among other things, incentive and non-qualified stock options are granted to certain employees and non-employee directors of the Company by the compensation committee of the Company's board of directors. The options are generally granted with exercise prices equal to the market value at the date of grant. Vesting periods for options granted to employees generally range from one to four years. Options granted to non-employee directors vest at the date of grant. The term of such options is ten years from the date of grant.

In connection with the 1999 Merger, all options outstanding at December 31, 1998 to purchase Old CCA common stock and all options outstanding at January 1, 1999 to purchase Old Prison Realty common stock, were converted into options to purchase shares of the Company's common stock, after giving effect to the exchange ratio and carryover of the vesting and other relevant terms. Options granted under Old CCA's stock option plans are exercisable after the later of two years from the date of employment or one year after the date of grant until ten years after the date of grant. Options granted under Old Prison Realty's stock option plans were granted with terms similar to the terms of the Company's plans.

**Table of Contents****CORRECTIONS CORPORATION OF AMERICA AND SUBSIDIARIES****NOTES TO COMBINED AND CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Stock option transactions relating to the Company's incentive and nonqualified stock option plans are summarized below (in thousands, except exercise prices):

	<b>Number of Options</b>	<b>Weighted Average Exercise Price Per Option</b>
Outstanding at December 31, 1999	608	\$ 101.49
Granted	552	\$ 16.52
Cancelled	(181)	\$ 96.00
Outstanding at December 31, 2000	979	\$ 54.54
Granted	1,613	\$ 8.84
Cancelled	(160)	\$ 37.05
Outstanding at December 31, 2001	2,432	\$ 25.30
Granted	926	\$ 17.04
Cancelled	(207)	\$ 58.86
Exercised	(49)	\$ 8.77
Outstanding at December 31, 2002	3,102	\$ 20.86

The weighted average fair value of options granted during 2002, 2001, and 2000 was \$8.10, \$7.05, and \$8.10 per option, respectively, based on the estimated fair value using the Black-Scholes option-pricing model.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions:

	<b>2002</b>	<b>2001</b>	<b>2000</b>
Expected dividend yield	0.0%	0.0%	0.0%
Expected stock price volatility	45.8%	89.4%	112.5%
Risk-free interest rate	4.0%	4.8%	5.3%
Expected life of options	6 years	7 years	7 years

Stock options outstanding at December 31, 2002, are summarized below:

<b>Exercise Price</b>	<b>Options Outstanding at December 31, 2002 (in thousands)</b>	<b>Weighted Average Remaining Contractual Life in Years</b>	<b>Options Exercisable at December 31, 2002</b>	<b>Weighted Average Exercise Price of Options Exercisable</b>
\$ 8.75 9.96	1,655	8.22	727	\$ 9.08
\$ 11.20 19.91	1,080	8.91	212	\$ 17.98
\$ 23.00 79.41	171	6.68	45	\$ 59.66
\$ 83.07 117.78	81	4.31	81	\$ 100.63

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\$121.76	159.31	115	4.49	115	\$145.85
		<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
		3,102	8.13	1,180	\$ 32.26
		<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

At the Company's 2000 annual meeting of stockholders held in December 2000, the Company obtained the approval of an amendment to the Company's 1997 Employee Share Incentive Plan to increase the number of shares of common stock available for issuance thereunder from 130,000 to

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**CORRECTIONS CORPORATION OF AMERICA AND SUBSIDIARIES**

**NOTES TO COMBINED AND CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

1.5 million and the adoption of the Company's 2000 Equity Incentive Plan, pursuant to which the Company reserved 2.5 million shares of the Company's common stock for issuance thereunder. These changes were made in order to provide the Company with adequate means to retain and attract quality directors, officers and key employees through the granting of equity incentives.

The Company has adopted the disclosure-only provisions of SFAS 123 and accounts for stock-based compensation using the intrinsic value method as prescribed in APB 25. As a result, no compensation cost has been recognized for the Company's stock option plans under the criteria established by SFAS 123. The pro forma effects on net income and earnings per share as if compensation cost for the stock option plans had been determined based on the fair value of the options at the grant date for 2002, 2001 and 2000, consistent with the provisions of SFAS 123, are disclosed in Note 4.

**20. Related Party Transactions**

The Company paid \$26.5 million in 2000, to a construction company that is owned by a former member of the Company's board of directors, for services rendered in the construction of facilities.

**21. Commitments and Contingencies**

***Litigation***

During the second quarter of 2002, the Company completed the settlement of certain claims made against it as the successor to U.S. Corrections Corporation (USCC), a privately-held owner and operator of correctional and detention facilities which was acquired by a predecessor of the Company in April 1998, by participants in USCC's Employee Stock Ownership Plan (ESOP). As a result of the settlement, the Company made a cash payment of \$575,000 to the plaintiffs in the action. As described below, the Company is currently in litigation with USCC's insurer seeking to recover all or a portion of this settlement amount. The USCC ESOP litigation, entitled *Horn v. McQueen*, continued to proceed, however, against two other defendants, Milton Thompson and Robert McQueen, both of whom were stockholders and executive officers of USCC and trustees of the ESOP prior to the Company's acquisition of USCC. In the *Horn* litigation, the ESOP participants allege numerous violations of the Employee Retirement Income Security Act, including breaches of fiduciary duties to the ESOP by causing the ESOP to overpay for employer securities. The plaintiffs in the action are seeking damages in excess of \$30.0 million plus prejudgment interest and attorneys' fees, although expert testimony in the litigation has indicated actual damages of significantly less than that. On July 29, 2002, the United States District Court for the Western District of Kentucky found that McQueen and Thompson had breached their fiduciary duties to the ESOP, but made no determination as to the amount of any damages. It is not known when the Court will make a finding with respect to damages.

In or about the second quarter of 2001, Northfield Insurance Co. (Northfield), the issuer of the liability insurance policy to USCC and its directors and officers, filed suit against McQueen, Thompson and the Company seeking a declaration that it did not owe coverage under the policy for any liabilities arising from the *Horn* litigation. Among other things, Northfield claimed that it did not receive timely notice of the litigation under the terms of the policy. McQueen and Thompson subsequently filed a cross-claim in the *Northfield* litigation against the Company, claiming that, as the result of the Company's failure to timely notify the insurance carrier of the *Horn* case on their behalf, they were entitled to indemnification or contribution from the Company for any loss incurred by them as a result of the *Horn* litigation if there were no insurance available to cover the loss, if any. On September 30, 2002, the Court in the *Northfield* litigation found that Northfield was not obligated to cover McQueen and Thompson or the Company. Though it did not resolve the cross-claim, the Court did note that there was no basis for excusing McQueen and Thompson from their obligation to provide timely notice to the carrier because of the Company's alleged failure to provide timely notice to the carrier. Upon the entry of a final order by

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**CORRECTIONS CORPORATION OF AMERICA AND SUBSIDIARIES**

**NOTES TO COMBINED AND CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

the Court, the Company intends to appeal the Court's decision that Northfield is not obligated to provide coverage, and the Company intends to continue to defend its position that coverage is required.

The Company cannot currently predict whether or not it will be successful in recovering all or a portion of the amount it has paid in settlement of the *Horn* litigation. With respect to the cross-claim of McQueen and Thompson, the Company believes that such cross-claim is without merit and that the Company will be able to defend itself successfully against such claim and/or any additional claims of such nature that may be brought in the future. No assurance can be given, however, that McQueen and Thompson will not prevail in any such claims.

In addition to the above legal matters, the nature of the Company's business results in claims and litigation alleging that the Company is liable for damages arising from the conduct of its employees or others. In the opinion of management, other than the outstanding litigation discussed above, there are no pending legal proceedings that would have a material effect on the consolidated financial position, results of operations or cash flows of the Company.

***Insurance Contingencies***

Each of the Company's management contracts and the statutes of certain states require the maintenance of insurance. The Company maintains various insurance policies including employee health, workers' compensation, automobile liability and general liability insurance. These policies are fixed premium policies with various deductible amounts that are self-funded by the Company. Reserves are provided for estimated incurred claims within the deductible amounts.

***Income Tax Contingencies***

In connection with the merger with Old CCA, on December 31, 1998, the Company assumed the tax obligations of Old CCA. The Internal Revenue Service (IRS) has completed field audits of Old CCA's federal tax returns for the taxable years ended December 31, 1998 and 1997, and has recently completed auditing the Company's federal tax return for the taxable year ended December 31, 2000. In addition, the IRS has recently commenced an audit of the Company's federal tax return for the taxable year ended December 31, 2001.

The IRS agent's report related to 1998 and 1997 included a determination by the IRS to increase taxable income by approximately \$120.0 million. The Company appealed the IRS's findings with the Appeals Office of the IRS. On October 24, 2002 the Company entered into a definitive settlement agreement with the IRS in connection with the IRS's audit of Old CCA's 1997 federal income tax return. Under the terms of the settlement, in consideration for the IRS's final determinations with respect to the 1997 tax year, in December 2002 the Company paid approximately \$52.2 million in cash to satisfy federal and state taxes and interest.

Pursuant to the terms of the settlement, the audit adjustments agreed to for the 1997 tax year did not trigger any additional distribution requirements by the Company in order to preserve the Company's status as a REIT for federal income tax purposes for 1999. The adjustments will, however, serve to increase the Company's accumulated earnings and profits in 2002 and therefore will affect the taxability of dividends paid by the Company on its Series A and Series B Preferred Stock in 2002 and later years.

The Company is continuing to appeal the IRS's findings with respect to the IRS's audit of Old CCA's 1998 federal income tax return. The Company does not currently expect, however, that the resolution of the 1998 audit will have a material adverse effect on the Company's liquidity or results of operations.

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**CORRECTIONS CORPORATION OF AMERICA AND SUBSIDIARIES**

**NOTES TO COMBINED AND CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

In connection with the IRS's audit of the Company's 2000 federal income tax return, the IRS has proposed the disallowance of a loss the Company claimed as the result of its forgiveness in September 2000 of certain indebtedness of Operating Company. This finding is currently being protested with the Appeals Office of the IRS. In the event that, after the Company seeks all available remedies, the IRS prevails, the Company would be required to pay the IRS in excess of \$56.0 million in cash plus penalties and interest. This adjustment would also substantially eliminate the Company's net operating loss carryforward. The Company believes that it has meritorious defenses of its positions. The Company has not established a reserve for this matter. However, no assurance can be given that the IRS will not make such an assessment and prevail in any such claim against the Company.

Because the audit of the Company's federal tax return for the taxable year ended December 31, 2001 has only recently commenced, it is too early to predict the outcome of such audit.

***Guarantees***

In connection with the bond issuance of a governmental entity for which the Company currently provides management services at a correctional facility, the Company is obligated, under a debt service deficit agreement, to pay the trustee of the bond's trust indenture (the Trustee) amounts necessary to pay any debt service deficits consisting of principal and interest requirements (outstanding principal balance of \$62.0 million at December 31, 2002 plus future interest payments). In the event the State of Tennessee, which is currently utilizing the facility, exercises its option to purchase the correctional facility, the Company is also obligated to pay the difference between principal and interest owed on the bonds on the date set for the redemption of the bonds and amounts paid by the State of Tennessee for the facility plus all other funds on deposit with the Trustee and available for redemption of the bonds. Ownership of the facility reverts to the State of Tennessee in 2017 at no cost. Therefore, the Company does not currently believe the State of Tennessee will exercise its option to purchase the facility. At December 31, 2002, the outstanding principal balance of the bonds exceeded the purchase price option by \$13.1 million. The Company also maintains a restricted cash account of approximately \$7.1 million as collateral against a guarantee it has provided for a forward purchase agreement related to the above bond issuance.

***Retirement Plan***

On December 28, 1998, Operating Company adopted a 401(k) plan (the Plan). In connection with the Operating Company Merger, the Company assumed all benefits and obligations of the Plan. All employees of the Company are eligible to participate upon reaching age 18 and completing one year of qualified service. Prior to January 1, 2002, employees could elect to defer from 1% to 15% of their compensation. The provisions of the Plan provide for discretionary employer basic and matching contributions to those participants credited with at least one thousand hours of employment in a plan year, and who are employed by the Company on the last day of the plan year. During the period from the Operating Company Merger, and through December 31, 2001, the Company provided a discretionary basic contribution to each eligible employee equal to 2% of the employee's compensation for the first year of eligibility, and 1% of the employee's compensation for each year of eligibility following. In addition, the Company provided a discretionary matching contribution equal to 100% of the employee's contributions up to 4% of the employee's compensation. The Company's contributions and investment earnings or losses thereon became 40% vested after four years of service and 100% vested after five years of service.

Effective January 1, 2002, the maximum compensation deferral was increased to 20% of the employee's compensation, and for the year ended December 31, 2002, the Company provided a discretionary matching contribution equal to 100% of the employee's contributions up to 5% of the employee's compensation. Further, effective January 1, 2002, the Company amended the vesting schedule so that employer contributions and investment earnings or losses thereon become vested 20% after two

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**CORRECTIONS CORPORATION OF AMERICA AND SUBSIDIARIES**

**NOTES TO COMBINED AND CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

years of service, 40% after three years of service, 80% after four years of service, and 100% after five or more years of service.

During the years ended December 31, 2002, 2001, and 2000, the Company's discretionary contributions to the Plan, net of forfeitures, were \$4.3 million, \$5.7 million, and \$0.8 million, respectively.

***Deferred Compensation Plans***

During 2002, the compensation committee of the board of directors approved the Company's adoption of two non-qualified deferred compensation plans (the Deferred Compensation Plans) for non-employee directors and for certain senior executives that elect not to participate in the Company's 401(k) Plan. The Deferred Compensation Plans are unfunded plans maintained for the purpose of providing the Company's directors and certain of its senior executives the opportunity to defer a portion of their compensation. Under the terms of the Deferred Compensation Plans, certain senior executives may elect to contribute on a pre-tax basis up to 50% of their base salary and up to 100% of their cash bonus, and non-employee directors may elect to contribute on a pre-tax basis up to 100% of their director retainer and meeting fees. The Company matches 100% of employee contributions up to 5% of total cash compensation. The Company also contributes a fixed rate of return on balances in the Deferred Compensation Plans, determined at the beginning of each plan year. Matching contributions and investment earnings thereon vest over a three-year period from the date of each contribution. Distributions are generally payable no earlier than five years subsequent to the date an individual becomes a participant in the Plan, or upon termination of employment (or the date a director ceases to serve as a director of the Company), at the election of the participant, but not later than the fifteenth day of the month following the month the individual attains age 65.

During 2002, the Company provided a fixed return of 8.6% to participants in the Deferred Compensation Plan. The Company has purchased life insurance policies on the lives of certain employees of the Company, which are intended to fund distributions from the Deferred Compensation Plans. The Company is the sole beneficiary of such policies. At the inception of the Deferred Compensation Plans, the Company established an irrevocable Rabbi Trust to secure the plans' obligations. However, assets in the Deferred Compensation Plans are subject to creditor claims in the event of bankruptcy. During 2002, the Company recorded \$45,000 of matching contributions as general and administrative expense associated with the Deferred Compensation Plans. As of December 31, 2002, the Company's liability related to the Deferred Compensation Plans was approximately \$0.2 million, which was reflected in accounts payable, accrued expenses and other liabilities in the accompanying balance sheet.

***Employment and Severance Agreements***

On July 28, 2000, Doctor R. Crants was terminated as the chief executive officer of the Company and from all positions with the Company and Operating Company. Under certain employment and severance agreements, Mr. Crants will continue to receive his salary and health, life and disability insurance benefits through the second quarter of 2003 and was vested immediately in 14,000 shares of the Company's common stock previously granted as part of a deferred stock award. The compensation expense related to these benefits, totaling \$0.7 million in cash and \$1.2 million in non-cash charges representing the unamortized portion of the deferred stock award, was recognized during the third quarter of 2000. The unamortized portion was based on the trading price of the common stock of Old CCA, as of the date of grant, which occurred in the fourth quarter of 1995.

The Company also currently has employment agreements with several of its executive officers which provide for the payment of certain severance amounts upon an event of termination or change of control, as further defined in the agreements.

**Table of Contents****CORRECTIONS CORPORATION OF AMERICA AND SUBSIDIARIES****NOTES TO COMBINED AND CONSOLIDATED FINANCIAL STATEMENTS (Continued)****22. Segment Reporting**

As of December 31, 2002, the Company owned and managed 37 correctional and detention facilities, and managed 23 correctional and detention facilities it does not own. During the second quarter of 2001, management began viewing the Company's operating results in two reportable segments: owned and managed correctional and detention facilities and managed-only correctional and detention facilities. The accounting policies of the reportable segments are the same as those described in Note 4. Owned and managed facilities include the operating results of those facilities owned and managed by the Company. Managed-only facilities include the operating results of those facilities owned by a third party and managed by the Company. The Company measures the operating performance of each facility within the above two reportable segments, without differentiation, based on facility contribution. The Company defines facility contribution as a facility's operating income or loss from operations before interest, taxes, depreciation and amortization. Since each of the Company facilities within the two reportable segments exhibit similar economic characteristics, provide similar services to governmental agencies, and operate under a similar set of operating procedures and regulatory guidelines, the facilities within the identified segments have been aggregated and reported as one reportable segment.

The revenue and facility contribution for the reportable segments and a reconciliation to the Company's operating income (loss) is as follows for the three years ended December 31, 2002, 2001 and 2000 (dollars in thousands):

	<b>For the Years Ended December 31,</b>		
	<b>2002</b>	<b>2001</b>	<b>2000</b>
<b>Revenue:</b>			
Owned and managed	\$639,104	\$619,652	\$ 149,984
Managed-only	304,004	294,226	108,409
<b>Total management revenue</b>	<b>943,108</b>	<b>913,878</b>	<b>258,393</b>
<b>Operating expenses:</b>			
Owned and managed	479,336	464,392	121,752
Managed-only	247,743	240,415	90,047
<b>Total operating expenses</b>	<b>727,079</b>	<b>704,807</b>	<b>211,799</b>
<b>Facility contribution:</b>			
Owned and managed	159,768	155,260	28,232
Managed-only	56,261	53,811	18,362
<b>Total facility contribution</b>	<b>216,029</b>	<b>209,071</b>	<b>46,594</b>
<b>Other revenue (expense):</b>			
Rental and other revenue	19,730	22,475	51,885
Other operating expense	(16,995)	(16,661)	(5,516)
General and administrative expense	(36,907)	(34,568)	(45,463)
Depreciation and amortization	(51,878)	(53,279)	(59,799)
Licensing fees to Operating Company			(501)
Administrative service fee to Operating Company			(900)
Write-off of amounts under lease arrangements			(11,920)
Impairment losses			(527,919)
<b>Operating income (loss)</b>	<b>\$ 129,979</b>	<b>\$ 127,038</b>	<b>\$ (553,539)</b>





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	December 31,	
	2002	2001
Assets:		
Owened and managed	\$ 1,558,491	\$ 1,678,733
Managed-only	88,995	93,217
Corporate and other	212,770	176,481
Discontinued operations	13,815	22,849
	<hr/>	<hr/>
Total assets	\$ 1,874,071	\$ 1,971,280
	<hr/>	<hr/>

**23. Selected Quarterly Financial Information (Unaudited)**

Selected quarterly financial information for each of the quarters in the years ended December 31, 2002 and 2001 is as follows (in thousands, except per share data):

	March 31, 2002	June 30, 2002	September 30, 2002	December 31, 2002
Revenue	\$ 230,555	\$ 238,157	\$ 245,769	\$ 248,357
Operating income	\$ 30,135	\$ 32,791	\$ 35,171	\$ 31,882
Income from continuing operations	\$ 37,454	\$ 10,707	\$ 16,978	\$ 43,210
Income (loss) from discontinued operations, net of taxes	\$ 1,570	\$ (227)	\$ (713)	\$ 51
Extraordinary charge	\$	\$ (36,670)	\$	\$
Cumulative effect of accounting change	\$ (80,276)	\$	\$	\$
Net income (loss) available to common stockholders	\$ (46,329)	\$ (31,395)	\$ 10,973	\$ 37,876
Basic earnings (loss) per share:				
Income from continuing operations	\$ 1.17	\$ 0.20	\$ 0.42	\$ 1.37
Income (loss) from discontinued operations, net of taxes	0.06	(0.01)	(0.02)	
Extraordinary charge		(1.33)		
Cumulative effect of accounting change	(2.91)			
	<hr/>	<hr/>	<hr/>	<hr/>
Net income (loss) available to common stockholders	\$ (1.68)	\$ (1.14)	\$ 0.40	\$ 1.37
	<hr/>	<hr/>	<hr/>	<hr/>
Diluted earnings (loss) per share:				
Income from continuing operations	\$ 0.98	\$ 0.19	\$ 0.38	\$ 1.14
Income (loss) from discontinued operations, net of taxes	0.04	(0.01)	(0.02)	
Extraordinary charge		(1.14)		
Cumulative effect of accounting change	(2.25)			
	<hr/>	<hr/>	<hr/>	<hr/>
Diluted net income (loss) available to common stockholders	\$ (1.23)	\$ (0.96)	\$ 0.36	\$ 1.14
	<hr/>	<hr/>	<hr/>	<hr/>



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	March 31, 2001	June 30, 2001	September 30, 2001	December 31, 2001
Revenue	\$ 229,564	\$ 234,636	\$ 236,767	\$ 235,386
Operating income	\$ 31,634	\$ 32,255	\$ 32,531	\$ 30,618
Income (loss) from continuing operations	\$ (8,350)	\$ (774)	\$ (2,565)	\$ 29,746
Income from discontinued operations, net of taxes	\$ 3,043	\$ 1,288	\$ 2,001	\$ 1,305
Net income (loss) available to common stockholders	\$ (10,128)	\$ (4,466)	\$ (5,678)	\$ 25,942
Basic earnings (loss) per share:				
Income (loss) from continuing operations	\$ (0.56)	\$ (0.23)	\$ (0.31)	\$ 1.00
Income from discontinued operations, net of taxes	0.13	0.05	0.08	0.05
Net income (loss) available to common stockholders	\$ (0.43)	\$ (0.18)	\$ (0.23)	\$ 1.05
Diluted earnings (loss) per share:				
Income (loss) from continuing operations	\$ (0.56)	\$ (0.23)	\$ (0.31)	\$ 0.76
Income from discontinued operations, net of taxes	0.13	0.05	0.08	0.04
Diluted net income (loss) available to common stockholders	\$ (0.43)	\$ (0.18)	\$ (0.23)	\$ 0.80

**24. Subsequent Events**

On January 17, 2003, the Company purchased the Crowley County Correctional Facility, a 1,200-bed medium security adult male prison facility located in Olney Springs, Crowley County, Colorado, for a purchase price of approximately \$47.5 million. As part of the transaction, the Company also assumed a management contract with the State of Colorado and entered into a new management contract with the State of Wyoming, and took over management of the facility effective January 18, 2003. The Company financed the purchase price through \$30.0 million in borrowings under its New Senior Bank Credit Facility pursuant to an expansion of the Term Loan B Facility, with the balance of the purchase price satisfied with cash on hand.

During the fourth quarter of 2002, the Company was informed by the State of Florida of its intention to terminate the Company's contract to manage the 96-bed Okeechobee Juvenile Offender Correctional Center upon the expiration of a short-term extension to the existing management contract, which expired in December 2002. This termination occurred February 28, 2003. During 2002, this facility generated total revenue and operating expenses of \$4.8 million and \$4.0 million, respectively.

On March 18, 2003, the Company was notified by the Department of Corrections of the Commonwealth of Virginia of its intention to terminate the Company's contract to manage the 1,500-bed Lawrenceville Correctional Center upon the expiration of the contract on March 22, 2003. This termination occurred March 22, 2003. During 2002, this facility generated total revenue and operating expenses of \$20.3 million and \$18.7 million, respectively.

# Corrections Corporation of America

10 Burton Hills Boulevard

Nashville, Tennessee 37215  
(615) 263-3000

## Debt Securities

## Guarantees Preferred Stock Common Stock Warrants

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We may from time to time sell up to \$700,000,000 in the aggregate of:

our secured or unsecured debt securities, in one or more series, which may be either senior, senior subordinated or subordinated debt securities;

guarantees of our obligations under our debt securities, if any;

shares of our preferred stock, par value \$0.01 per share, in one or more series;

shares of our common stock, par value \$0.01 per share;

warrants to purchase our common stock; or

any combination of the foregoing.

In addition, selling stockholders named in a post-effective amendment to the registration statement as we may permit may offer and sell from time to time up to 5,711,388 shares of our common stock as described in the applicable prospectus supplement. We will not receive any proceeds from the sale of shares by a selling stockholder.

We will provide the specific terms of these securities in supplements to this prospectus. You should read this prospectus and any prospectus supplement, as well as the documents incorporated or deemed to be incorporated by reference in this prospectus, carefully before you invest in our securities.

**See Risk Factors beginning on page 2 for a discussion of material risks that you should consider before you invest in our securities being sold with this prospectus.**

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Our common stock is traded on the New York Stock Exchange under the symbol CXW. Our series A preferred stock is traded on the New York Stock Exchange under the symbol CXW PrA. Our series B preferred stock is traded on the New York Stock Exchange under the symbol CXW PrB.

**Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.**

We will sell these securities directly, through agents, dealers or underwriters as designated from time to time, or through a combination of these methods. We reserve the sole right to accept, and together with our agents, from time to time, to reject in whole or in part any proposed purchase of securities to be made directly or through agents. If our agents or any dealers or underwriters are involved in the sale of the securities, the applicable prospectus supplement will set forth the names of the agents, dealers or underwriters and any applicable commissions or discounts.

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This prospectus may not be used to consummate sales of securities unless accompanied by the applicable prospectus supplement.

The date of this prospectus is April 30, 2003.

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**RISK FACTORS**

*You should carefully consider the risk factors set forth below as well as the other information contained in this prospectus and incorporated or deemed to be incorporated by reference before buying securities in this offering. The risks described below are not the only risks facing us. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial may also materially and adversely affect our business operations. Any of the following risks could materially adversely affect our business, financial condition or results of operations.*

**Risks Related to Our Business and Industry**

*Our results of operations are dependent on revenues generated by our jails, prisons and detention facilities, which are subject to the following risks associated with the corrections and detention industry.*

*General.* We currently operate 59 correctional and detention facilities, including 38 that we own. The facilities we manage have a total design capacity of approximately 59,000 beds in 20 states and the District of Columbia. Accordingly, we are subject to the operating risks associated with the corrections and detention industry, including those set forth below.

*We are subject to fluctuations in occupancy levels.* While a substantial portion of our cost structure is fixed, a substantial portion of our revenues are generated under facility management contracts that specify per diem payments based upon occupancy. Under a per diem rate structure, a decrease in our occupancy rates could cause a decrease in revenue and profitability. Average compensated occupancy for our facilities in operation for 2002 and 2001 was 89.6% and 88.4%, respectively. Occupancy rates may, however, decrease below these levels in the future.

*We are subject to the termination or non-renewal of our government contracts.* We typically enter into facility management contracts with governmental entities for terms of up to five years, with additional renewal periods at the option of the contracting governmental agency. Notwithstanding any contractual renewal option of a contracting governmental agency, 35 of our facility management contracts are scheduled to expire on or before December 31, 2003. See Business Facility Portfolio Facilities and Facility Management Contracts set forth in the Annual Report on Form 10-K incorporated herein by reference. One or more of these contracts may not be renewed by the corresponding governmental agency. In addition, these and any other contracting agencies may determine not to exercise renewal options with respect to any of our contracts in the future. In the first quarter of 2003, the State of Florida terminated our contract to manage the Okeechobee Juvenile Offender Correctional Center upon the expiration of a short-term extension to the existing contract, and the Commonwealth of Virginia Department of Corrections assumed operations of the Lawrenceville Corrections Center upon expiration of our contract on March 22, 2003. Governmental agencies typically may also terminate a facility contract at any time without cause or use the possibility of termination to negotiate a lower fee for per diem rates. In the event any of our management contracts are terminated or are not renewed on favorable terms or otherwise, we may not be able to obtain additional replacement contracts. The non-renewal or termination of any of our contracts with governmental agencies could materially adversely affect our financial condition, results of operations and liquidity, including our ability to secure new facility management contracts from others.

*Competition for inmates may adversely affect the profitability of our business.* We compete with government entities and other private operators on the basis of cost, quality and range of services offered, experience in managing facilities and reputation of management and personnel. While there are barriers to entering the market for the management of correctional and detention facilities, these barriers may not be sufficient to limit additional competition. In addition, our government customers may assume the management of a facility currently managed by us upon the termination of the corresponding management contract or, if such customers have capacity at their facilities, may take inmates currently housed in our facilities and transfer them to government run facilities. Since we are paid on a per-diem basis with no minimum guaranteed occupancy under certain of our contracts, the loss of such inmates and resulting decrease in occupancy would cause a decrease in our revenues and profitability. Further, many of our state

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customers are currently experiencing budget difficulties. These budget difficulties could result in decreases to our per-diem rates, which could cause a decrease in our revenues and profitability.

*We are dependent on government appropriations.* Our cash flow is subject to the receipt of sufficient funding of and timely payment by contracting governmental entities. If the appropriate governmental agency does not receive sufficient appropriations to cover its contractual obligations, it may terminate our contract or delay or reduce payment to us. Any delays in payment, or the termination of a contract, could have including an adverse effect on our cash flow and financial condition. In addition, as a result of, among other things, recent economic developments, federal, state and local governments have encountered, and may encounter unusual budgetary constraints. As a result, a number of state and local governments are under pressure to control additional spending or reduce current levels of spending. Accordingly, we may be requested in the future to reduce our existing per diem contract rates or forego prospective increases to those rates. In addition, it may become more difficult to renew our existing contracts on favorable terms or otherwise.

*Public resistance to privatization of correctional and detention facilities could result in our inability to obtain new contracts or the loss of existing contracts.* The operation of correctional and detention facilities by private entities has not achieved complete acceptance by either governments or the public. The movement toward privatization of correctional and detention facilities has also encountered resistance from certain groups, such as labor unions and others that believe that correctional and detention facilities should only be operated by governmental agencies.

Moreover, negative publicity about an escape, riot or other disturbance or perceived poor conditions at a privately managed facility may result in publicity adverse to us and the private corrections industry in general. Any of these occurrences or continued trends may make it more difficult for us to renew or maintain existing contracts or to obtain new contracts, which could have a material adverse effect on our business.

*Our ability to secure new contracts to develop and manage correctional and detention facilities depends on many factors outside our control.* Our growth is generally dependent upon our ability to obtain new contracts to develop and manage new correctional and detention facilities. This possible growth depends on a number of factors we cannot control, including crime rates and sentencing patterns in various jurisdictions and acceptance of privatization. The demand for our facilities and services could be adversely affected by the relaxation of enforcement efforts, leniency in conviction and sentencing practices or through the decriminalization of certain activities that are currently proscribed by our criminal laws. For instance, any changes with respect to drugs and controlled substances or illegal immigration could affect the number of persons arrested, convicted and sentenced, thereby potentially reducing demand for correctional facilities to house them. Similarly, reductions in crime rates could lead to reductions in arrests, convictions and sentences requiring incarceration at correctional facilities.

Moreover, certain jurisdictions recently have required successful bidders to make a significant capital investment in connection with the financing of a particular project, a trend that will require us to have sufficient capital resources to compete effectively. We may not be able to obtain these capital resources when needed. Additionally, our success in obtaining new awards and contracts may depend, in part, upon our ability to locate land that can be leased or acquired under favorable terms. Otherwise desirable locations may be in or near populated areas and, therefore, may generate legal action or other forms of opposition from residents in areas surrounding a proposed site.

*Failure to comply with unique and increased governmental regulation could result in material penalties or non-renewal or termination of our contracts to manage correctional and detention facilities.* The industry in which we operate is subject to extensive federal, state and local regulations, including educational, health care and safety regulations, which are administered by many regulatory authorities. Some of the regulations are unique to the corrections industry, and the combination of regulations we face is unique. Facility management contracts typically include reporting requirements, supervision and on-site monitoring by representatives of the contracting governmental agencies. Corrections officers and juvenile care workers are customarily required to meet certain training standards and, in some instances, facility



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personnel are required to be licensed and subject to background investigation. Certain jurisdictions also require us to award subcontracts on a competitive basis or to subcontract with businesses owned by members of minority groups. Our facilities are also subject to operational and financial audits by the governmental agencies with which we have contracts. We may not always successfully comply with these regulations, and failure to comply can result in material penalties or non-renewal or termination of facility management contracts.

In addition, private prison managers are increasingly subject to government legislation and regulation attempting to restrict the ability of private prison managers to house certain types of inmates, such as inmates from other jurisdictions or inmates at medium or higher security levels. Legislation has been enacted in several states, and has previously been proposed in the United States House of Representatives, containing such restrictions. Although we do not believe that existing legislation will have a material adverse effect on us, future legislation may have such an effect on us.

*Government agencies may investigate and audit our contracts and, if any improprieties are found, we may be required to refund revenues we have received, to forego anticipated revenues and we may be subject to penalties and sanctions, including prohibitions on our bidding in response to Requests for Proposals, or RFPs.* Certain of the governmental agencies we contract with have the authority to audit and investigate our contracts with them. As part of that process, government agencies may review our performance of the contract, our pricing practices, our cost structure and our compliance with applicable laws, regulations and standards. For contracts that actually or effectively provide for certain reimbursement of expenses, if an agency determines that we have improperly allocated costs to a specific contract, we may not be reimbursed for those costs, and we could be required to refund the amount of any such costs that have been reimbursed. If a government audit asserts improper or illegal activities by us, we may be subject to civil and criminal penalties and administrative sanctions, including termination of contracts, forfeitures of profits, suspension of payments, fines and suspension or disqualification from doing business with certain governmental entities. Any adverse determination could adversely impact our ability to bid in response to RFPs in one or more jurisdictions.

*We depend on a limited number of governmental customers for a significant portion of our revenues.* We currently derive, and expect to continue to derive, a significant portion of our revenues from a limited number of governmental agencies. The loss of, or a significant decrease in, business from the Federal Bureau of Prisons ( BOP ), U.S. Immigration and Naturalization Service, now known as the Bureau of Immigration and Customs Enforcement (hereinafter referred to as INS ), U.S. Marshall Service ( USMS ) or various state agencies could seriously harm our financial condition and results of operations. The three federal governmental agencies with correctional and detention responsibilities, the BOP, INS and USMS, accounted for approximately 32% of our total revenues for the fiscal year ended December 31, 2002 (\$308.9 million), with the BOP accounting for approximately 14% of our total revenues for such period (\$132.6 million) and USMS accounting for approximately 11% of our total revenue for such period (\$109.6 million). We expect to continue to depend upon the federal agencies and a relatively small group of other governmental customers, for a significant percentage of our revenues.

***We are dependent upon our senior management and our ability to attract and retain sufficient qualified personnel.***

We are dependent upon the continued service of each member of our senior management team, including John D. Ferguson, our President and Chief Executive Officer. The unexpected loss of any of these persons could materially adversely affect our business and operations. We only have employment agreements with our President and Chief Executive Officer; Executive Vice President and Chief Financial Officer; Executive Vice President and Chief Operating Officer; and Executive Vice President and Chief Development Officer, all of which expire in 2003 subject to annual renewals unless either party gives notice of termination.

In addition, the services we provide are labor-intensive. When we are awarded a facility management contract or open a new facility, we must hire operating management, correctional officers and other personnel. The success of our business requires that we attract, develop and retain these personnel. Our

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inability to hire sufficient qualified personnel on a timely basis or the loss of significant numbers of personnel at existing facilities could adversely affect our business and operations.

***We are subject to necessary insurance costs.***

Workers' compensation and general liability insurance represent significant costs to us. We continue to incur increasing insurance costs due to adverse claims experience and rising healthcare costs in general. In addition, since the events of September 11, 2001, and due to concerns over corporate governance and recent accounting scandals, liability and other types of insurance have become more difficult and costly to obtain. Unanticipated additional insurance costs could adversely impact our results of operations and cash flows, and the failure to obtain or maintain any necessary insurance coverage could have a material adverse effect on us.

***We may be adversely affected by inflation.***

Many of our facility management contracts provide for fixed management fees or fees that increase by only small amounts during their terms. If, due to inflation or other causes, our operating expenses, such as wages and salaries of our employees, and insurance, medical and food costs, increase at rates faster than increases, if any, in our management fees, then our profitability would be adversely affected. See Management's Discussion and Analysis of Financial Condition and Results of Operations - Inflation as set forth in the Annual Report on Form 10-K incorporated herein by reference.

***We are subject to legal proceedings associated with owning and managing correctional and detention facilities.***

Our ownership and management of correctional and detention facilities, and the provision of inmate transportation services by a subsidiary, expose us to potential third-party claims or litigation by prisoners or other persons relating to personal injury or other damages resulting from contact with a facility, its managers, personnel or other prisoners, including damages arising from a prisoner's escape from, or a disturbance or riot at, a facility we own or manage, or from the misconduct of our employees. To the extent the events serving as a basis for any potential claims are alleged or determined to constitute illegal or criminal activity, we could also be subject to criminal liability. Such liability could result in significant monetary fines and could affect our ability to bid on future contracts and retain our existing contracts. In addition, as an owner of real property, we may be subject to a variety of proceedings relating to personal injuries of persons at such facilities. The claims against our facilities may be significant and may not be covered by insurance. Even in cases covered by insurance, our deductible may be significant.

***We are subject to tax-related risks.***

The Internal Revenue Service (IRS) has recently completed auditing our federal tax return for the taxable year ended December 31, 2000. The IRS has proposed an adjustment to the 2000 tax return that, if ultimately upheld by the Appeals Office of the IRS, would require us to make cash payments to the IRS in excess of \$56.0 million, not including penalties and interest. See Business - Legal Proceedings and Income Tax Matters and Contingencies - Income Tax Contingencies for a further description of this matter. While we believe that we have sufficient liquidity available to us to satisfy any payments required to be made, in the event we are required to make payments in connection with such claim, the payments would reduce our working capital available to satisfy amounts due under the terms of our indebtedness. Any adjustment would also substantially eliminate our net operating loss carryforward, and would result in increased cash tax liabilities on taxable income thereafter.

On October 24, 2002, we entered into a definitive settlement with the IRS in connection with the IRS' audit of our predecessor's 1997 federal income tax return. Under the terms of the settlement, in consideration for the IRS' final determinations with respect to the 1997 tax year, in December 2002 we paid approximately \$52.2 million in cash to satisfy federal and state taxes and interest.

Due to a change in tax law created by the Job Creation and Worker Assistance Act (JCWAA) of 2002, which was signed into law in March 2002, the settlement created opportunity to utilize any 2002 tax losses to claim a refund of a portion of the taxes paid. We experienced tax losses during 2002 primarily

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resulting from a cumulative effect of accounting change in depreciable lives for tax purposes. Under terms of the new law, we utilized our net operating losses to offset taxable income generated in 1997, which was increased substantially in connection with the settlement with the IRS. As a result of the tax law change in 2002, combined with the adoption of an accounting change in the depreciable lives of certain tax assets, we will be due an income tax refund of approximately \$32.1 million. The IRS could challenge the deduction associated with the change in depreciable lives of certain tax assets. The disallowance of all or a substantial portion of this deduction by the IRS would have a material adverse impact on our financial position, results of operations and expected cash flows.

In addition, although the IRS has concluded its audit of our federal tax return for the taxable year ended December 31, 1999, the statute of limitations for such taxable year still has not expired. Thus, our election of REIT status for 1999 remains subject to review by the IRS generally until the expiration of three years from, the date of filing of our 1999 federal tax return in September 2000. Should the IRS subsequently disallow our election to be taxed as a REIT for the 1999 taxable year, we would be subject to income taxes and interest on our 1999 taxable income and possibly could be subject to penalties, which would have an adverse impact on our financial position, results of operations and cash flows.

***We are subject to risks associated with ownership of real estate.***

Our ownership of correctional and detention facilities subjects us to risks typically associated with investments in real estate. Investments in real estate, and in particular, correctional and detention facilities, are relatively illiquid and, therefore, our ability to divest ourselves of one or more of our facilities promptly in response to changed conditions is limited. Investments in correctional and detention facilities, in particular, subject us to risks involving potential exposure to environmental liability and uninsured loss. Our operating costs may be affected by the obligation to pay for the cost of complying with existing environmental laws, ordinances and regulations, as well as the cost of complying with future legislation. In addition, although we maintain insurance for many types of losses, there are certain types of losses, such as losses from earthquakes, riots and acts of terrorism, which may be either uninsurable or for which it may not be economically feasible to obtain insurance coverage, in light of the substantial costs associated with such insurance. As a result, we could lose both our capital invested in, and anticipated profits from, one or more of the facilities we own. Further, it is possible to experience losses that may exceed the limits of insurance coverage.

*Certain of our facilities are subject to options to purchase and reversions.* Ten of our facilities are or will be subject to an option to purchase by certain governmental agencies. Such options are exercisable by the corresponding contracting governmental entity generally at any time during the term of the respective facility management contract. See Business Facility Portfolio Facilities and Facility Management Contracts set forth in the Annual Report on Form 10-K incorporated by reference. If any of these options are exercised, there exists the risk that we will be unable to invest the proceeds from the sale of the facility in one or more properties that yield as much cash flow as the property acquired by the government entity. In addition, in the event any of these options are exercised, there exists the risk that the contracting governmental agency will terminate the management contract associated with such facility. For the year ended December 31, 2002, the facilities subject to these options generated approximately \$172.4 million in revenue (17.9% of total revenue) and incurred approximately \$136.8 million in operating expenses.

In addition, ownership of three of our facilities (including two of which also are subject to options to purchase) will, upon the expiration of certain ground leases with remaining terms generally ranging from 13 to 15 years, revert to the respective governmental agency contracting with us. See Business Facility Portfolio Facilities and Facility Management Contracts set forth in the Annual Report on Form 10-K incorporated by reference. At the time of such reversion, there exists the risk that the contracting governmental agency will terminate the management contract associated with such facility. For the year ended December 31, 2002, the facilities subject to reversion generated approximately \$60.6 million (6.3% of total revenues) in revenue and incurred approximately \$51.8 million in operating expenses.

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*We may be adversely affected by the rising cost and increasing difficulty of obtaining adequate levels of surety credit on favorable terms.*

We are often required to post bid or performance bonds issued by a surety company as a condition to bidding on or being awarded a contract. Availability and pricing of these surety commitments is subject to general market and industry conditions, among other factors. Recent events in the economy have caused the surety market to become unsettled, causing many reinsurers and sureties to reevaluate their commitment levels and required returns. As a result, surety bond premiums generally are increasing. If we are unable to effectively pass along the higher surety costs to our customers, any increase in surety costs could adversely affect our operating results. We cannot assure you that we will have continued access to surety credit or that we will be able to secure bonds economically, without additional collateral, or at the levels required for any potential facility development or contract bids. If we are unable to obtain adequate levels of surety credit on favorable terms, we would have to rely upon letters of credit under our credit facility, which would entail higher costs even if such borrowing capacity was available when desired at the time, and our ability to bid for or obtain new contracts could be impaired.

**Risks Related to Our Leveraged Capital Structure**

*Our substantial indebtedness could adversely affect our financial health and prevent us from fulfilling our obligations under our debt securities or the terms of our preferred stock.*

We have a significant amount of indebtedness. As of December 31, 2002, we had total indebtedness of \$956.0 million, which was increased by \$30.0 million in January 2003 in connection with a facility acquisition.

Our substantial indebtedness could have important consequences to you. For example, it could:

make it more difficult for us to satisfy our obligations with respect to our indebtedness includes the notes issued in the notes offering;

increase our vulnerability to general adverse economic and industry conditions;

require us to dedicate a substantial portion of our cash flow from operations to payments on our indebtedness, thereby reducing the availability of our cash flow to fund working capital, capital expenditures, research and development efforts and other general corporate purposes;

limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate;

place us at a competitive disadvantage compared to our competitors that have less debt; and

limit our ability to borrow additional funds or refinance existing indebtedness on favorable terms.

*Our senior secured credit facility and other debt instruments have restrictive covenants that could affect our financial condition.*

The indenture related to our 9.875% unsecured senior notes due 2009, referred to herein as the 9.875% notes, and our senior secured credit facility contain financial and other restrictive covenants that limit our ability to engage in activities that may be in our long-term best interests. Our ability to borrow under our senior secured credit facility is subject to financial covenants, including leverage, interest rate and fixed charge coverage ratios. Our senior secured credit facility limits our ability to effect mergers, asset sales and change of control events. See Description of Certain Existing Indebtedness and Outstanding Preferred Stock Indebtedness Senior Secured Credit Facility. These covenants also contain restrictions regarding our ability to make capital expenditures in the future. The indenture related to the 9.875% notes also contain limitations on our ability to effect mergers and change of control events, as well as other limitations, including:

limitations on incurring additional indebtedness;

limitations on the sale of assets;

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limitations on the declaration and payment of dividends or other restricted payments;

limitations on transactions with affiliates; and

limitations on liens.

See Description of Certain Existing Indebtedness and Outstanding Preferred Stock Indebtedness 9.875% Senior Notes. Our failure to comply with these covenants could result in an event of default which, if not cured or waived, could result in the acceleration of all of our debts. We do not have sufficient working capital to satisfy our debt obligations in the event of an acceleration of all or a significant portion of our outstanding indebtedness.

***Despite current indebtedness levels, we may still incur more debt. This could further exacerbate the risks described above.***

The terms of the indenture for our 9.875% notes and our senior secured credit facility restrict our ability to incur significant additional indebtedness in the future. However, in the future we may refinance all or a portion of our indebtedness, including our senior secured credit facility, and incur more indebtedness as a result. If new debt is added to our and our subsidiaries' current debt levels, the related risks that we and they now face could intensify. As of December 31, 2002, we had \$58.0 million available for borrowing under our senior secured credit facility. See Description of Certain Existing Indebtedness and Outstanding Preferred Stock Indebtedness Senior Secured Credit Facility.

***Servicing our indebtedness will require a significant amount of cash. Our ability to generate cash depends on many factors beyond our control.***

Our ability to make payments on and to refinance our indebtedness and to fund planned capital expenditures will depend on our ability to generate cash in the future. This, to a certain extent, is subject to general economic, financial, competitive, legislative, regulatory and other factors that are beyond our control.

The risk exists that our business will be unable to generate sufficient cash flow from operations or that future borrowings will not be available to us under our senior secured credit facility in an amount sufficient to enable us to pay our indebtedness, including our existing senior notes or to fund our other liquidity needs. We may need to refinance all or a portion of our indebtedness, including our existing senior notes or new debt securities, on or before maturity. We may not, however, be able to refinance any of our indebtedness, including our senior secured credit facility and including our existing senior notes or new debt securities, on commercially reasonable terms or at all.

***Because portions of our indebtedness have floating interest rates, a general increase in interest rates will adversely affect cash flows.***

Our Senior Bank Credit Facility bears interest at a variable rate. To the extent our exposure to increases in interest rates is not eliminated through interest rate protection agreements, such increases will adversely affect our cash flows. In accordance with the terms of the Senior Bank Credit Facility, we have entered into an interest rate cap agreement capping LIBOR at 5.0% (prior to our contractual interest rate margin) on outstanding balances of \$200.0 million through expiration of the cap agreement on May 20, 2004. There can be no assurance that these interest rate protection provisions will be effective or that once the interest rate protection agreement expires, we will enter into additional interest rate protection agreements. See Management's Discussion and Analysis of Financial Condition and Results of Operations Quantitative and Qualitative Disclosures About Market Risk set forth in the Annual Report on Form 10-K incorporated herein by reference for a further discussion of our exposure to interest rate increases.

***We are required to repurchase all or a portion of our 9.875% notes upon a change of control.***

Upon certain change of control events, as that term is defined in the indenture for our 9.875% notes and, including a change of control caused by an unsolicited third party, we are required to make an offer in cash to repurchase all or any part of each holder's notes at a repurchase price equal to 101% of the

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principal thereof, plus accrued interest. The source of funds for any such repurchase would be our available cash or cash generated from operations or other sources, including borrowings, sales of equity or funds provided by a new controlling person or entity. Sufficient funds may not be available to us, however, at the time of any change of control event to repurchase all or a portion of the tendered notes pursuant to this requirement. Our failure to offer to repurchase notes, or to repurchase notes tendered, following a change of control will result in a default under the respective indentures, which could lead to a cross-default under our senior secured credit facility and under the terms of our other indebtedness. In addition, our senior secured credit facility prohibits us from making any such required repurchases. Prior to repurchasing the notes upon a change of control event, we must either repay outstanding indebtedness under our senior secured credit facility or obtain the consent of the lenders under our senior secured credit facility. If we do not obtain the required consents or repay our outstanding indebtedness under our senior secured credit facility, we would remain effectively prohibited from offering to purchase the notes. See *Description of Certain Existing Indebtedness and Outstanding Preferred Stock* *Senior Secured Credit Facility*.

### **Other Risks Related to an Investment in Our Securities**

*The market price for our equity securities may be volatile.*

In recent periods, there has been volatility in the market price for our publicly traded equity securities. In addition, the market price of our publicly traded equity securities could fluctuate substantially in the future in response to a number of factors, including the following:

- our quarterly operating results or the operating results of other private corrections and detention companies;
- changes in general conditions in the economy, the financial markets or the privatized corrections industry;
- changes in financial estimates or recommendations by stock market analysts regarding us or our competitors;
- announcements by us or our competitors of significant acquisitions;
- increases in labor and other costs; and
- natural disasters, riots or other developments affecting us or our competitors.

In addition, in recent years the stock market has experienced extreme price and volume fluctuations. This volatility has had a significant effect on the market prices of securities issued by many companies for reasons unrelated to their operating performance. These broad market fluctuations may materially adversely affect our stock price, regardless of our operating results.

*ERISA plan fiduciaries must consider certain factors before investing.*

Depending upon the particular circumstances of the plan, an investment in our securities may not be an appropriate investment for an ERISA (as hereinafter defined) plan, a qualified plan or individual retirement accounts and individual retirement annuities (collectively, IRAs). The Employee Retirement Income Security Act of 1974, as amended (ERISA), is a broad statutory framework that governs most non-governmental employee benefit plans in the United States. In deciding whether to purchase any of our securities, a fiduciary of a pension, profit-sharing or other employee benefit plan subject to ERISA (an ERISA Plan), in consultation with its advisors, should carefully consider its fiduciary responsibilities under ERISA, the prohibited transactions rules of ERISA and the Internal Revenue Code of 1986, as amended (the Code), and the effect of the plan asset regulations issued by the U.S. Department of Labor.

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***Our charter and bylaws and Maryland law could make it difficult for a third party to acquire our company.***

The Maryland General Corporation Law ( MGCL ) and our charter and bylaws contain provisions that could delay, deter or prevent a change in control of our company or our management. These provisions could also discourage proxy contests and make it more difficult for our stockholders to elect directors and take other corporate actions. These provisions:

authorize us to issue blank check preferred stock, which is preferred stock that can be created and issued by our board of directors, without stockholder approval, with rights senior to those of common stock;

provide that directors may be removed with or without cause only by the affirmative vote of at least a majority of the votes of shares entitled to vote thereon; and

establish advance notice requirements for submitting nominations for election to the board of directors and for proposing matters that can be acted upon by stockholders at a meeting.

We are also subject to anti-takeover provisions under Maryland law, which could also delay or prevent a change of control. Together, these provisions of our charter and bylaws and Maryland law may discourage transactions that otherwise could provide for the payment of a premium over prevailing market prices for publicly traded equity securities, and also could limit the price that investors are willing to pay in the future for shares of our publicly traded equity securities.

***Our issuance of preferred stock could adversely affect holders of our common stock and discourage a takeover.***

Our board of directors has the power to issue up to 50.0 million shares of preferred stock without any action on the part of our stockholders. As of March 31, 2003, 4.3 million shares of our series A preferred stock were authorized, issued and outstanding and 12.0 million shares of our series B preferred stock were authorized, with approximately 4.7 million shares issued and outstanding. Our board of directors also has the power, without stockholder approval, to set the terms of any new series of preferred stock that may be issued, including voting rights, dividend rights, preferences over our common stock with respect to dividends or in the event of a dissolution, liquidation or winding up and other terms. In the event that we issue additional shares of preferred stock in the future that have preference over our common stock with respect to payment of dividends or upon our liquidation, dissolution or winding up, or if we issue preferred stock with voting rights that dilute the voting power of our common stock, the rights of the holders of our common stock or the market price of our common stock could be adversely affected. In addition, the ability of our board of directors to issue shares of preferred stock without any action on the part of our stockholders may impede a takeover of us and prevent a transaction favorable to our stockholders.

***Future sales of our common stock in the public market could adversely affect our stock price and our ability to raise funds in new stock offerings.***

Future sales of substantial amounts of our common stock in the public market, or the perception that such sales could occur, could adversely affect prevailing market prices of our common stock and could impair our ability to raise capital through future offerings of equity securities.

***Our former independent public accountant, Arthur Andersen LLP, has been found guilty of federal obstruction of justice charges and you are unlikely to be able to exercise effective remedies against them in any legal action.***

Our combined and consolidated financial statements as of December 31, 2000, and for the year then ended were audited by Arthur Andersen, LLP ( Arthur Andersen ). See Experts for a discussion of the financial statements incorporated by reference herein. On March 14, 2002, Arthur Andersen was indicted on federal obstruction of justice charges arising from the federal government's investigation of Enron Corporation. On June 15, 2002, a jury returned with a guilty verdict against Arthur Andersen following a trial. In light of the jury verdict and the underlying events, on August 31, 2002 Arthur Andersen ceased

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practicing before the Securities and Exchange Commission (the Commission or SEC ). However, we are incorporating in this prospectus the combined and consolidated financial statements audited by Arthur Andersen as of December 31, 2000 and for the year then ended. Arthur Andersen has not performed any procedures in connection with this prospectus or the registration statement of which this prospectus is a part and has not consented to the incorporation by reference of its reports in this prospectus.

In reliance on Rule 437a under the Securities Act of 1933, as amended (the Securities Act ), we have not filed a consent of Arthur Andersen to the inclusion of their report herein. Because Arthur Andersen has not consented to the incorporation by reference of its report in this prospectus, you will not be able to recover against Arthur Andersen under Section 11 of the Securities Act for any untrue statements of material fact contained in the financial statements audited by Arthur Andersen or any omissions to state a material fact required to be stated therein. Furthermore, relief in connection with claims that may be available to stockholders under the federal securities laws against auditing firms may not be available to stockholders as a practical matter against Arthur Andersen because it no longer operates as an accounting firm. See also Experts.

Moreover, as a public company, we are required to file with the Commission periodic financial statements audited or reviewed by an independent public accountant. The Commission has said that it will continue accepting financial statements audited by Arthur Andersen on an interim basis so long as a reasonable effort is made to have Arthur Andersen reissue its reports and to obtain a manually signed accountant's report from Arthur Andersen. Arthur Andersen has informed us that it is no longer able to reissue its audit reports because both the partner and the audit manager who were assigned to our account have left the firm. In addition, Arthur Andersen is unable to perform procedures to assure the continued accuracy of its report on our audited financial statements included in this prospectus. Arthur Andersen will also be unable to perform such procedures or to provide other information or documents that would customarily be received by us or underwriters in connection with financings or other transactions, including consents and comfort letters. As a result, we may encounter delays, additional expense and other difficulties in future financings. Any resulting delay in accessing or inability to access the public capital markets could have a material adverse effect on us.



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**SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS**

This prospectus contains and incorporates by reference statements as to our beliefs and expectations of the outcome of future events that are forward-looking in nature, including, without limitation, the statements under Risk Factors herein and Management's Discussion and Analysis of Financial Condition and Results of Operations and Business incorporated herein by reference. All statements other than statements of current or historical fact contained or incorporated by reference herein are forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act). The words believe, anticipate, plan, expect, intend, estimate and similar expressions, as they relate to us, are intended to identify these forward-looking statements. These forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from the statements made. These include, but are not limited to, those described in Risk Factors as well as the risks and uncertainties associated with:

the growth in the privatization of the corrections and detention industry and the public acceptance of our services;

our ability to obtain and maintain correctional facility management contracts, including as the result of sufficient governmental appropriations, and the timing of the opening of new facilities;

changes in governmental policy, legislation and regulation of the corrections and detention industry that adversely affect our business;

availability of capital, including debt and equity financing, on terms that are favorable to us;

fluctuations in operating results because of changes in occupancy levels, competition, increases in costs of operations, fluctuations in interest rates and risks of operations;

tax-related risks; and

general economic and market conditions.

All forward-looking statements included or incorporated by reference in this prospectus are based on information available to us on the date of this prospectus. Except as required by law, we undertake no obligation to update or revise any forward-looking statement, 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 contained throughout this prospectus.

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**WHERE YOU CAN FIND ADDITIONAL INFORMATION**

We file reports, proxy statements and other information with the Securities and Exchange Commission. Our Commission filings are also available over the Internet at the Commission's web site at <http://www.sec.gov>. You may also read and copy any document we file at the Commission's public reference room at 450 Fifth Street, N.W., Washington, D.C. 20549. Please call the Commission at 1-800-SEC-0330 to obtain information on the operation of the public reference room. This prospectus, which is a part of the registration statement, omits some of the information included in the registration statement as permitted by the rules and regulations of the Commission. As a result, statements made in this prospectus as to the contents of any contract or other document are not necessarily complete. You should read the full text of any contract or document filed as an exhibit to the registration statement for a more complete understanding of the contract or document or matter involved.

**INCORPORATION OF INFORMATION BY REFERENCE**

The Commission allows us to incorporate by reference information that we file with it, which means that we can disclose important information to you by referring you to those documents. The information incorporated by reference is an important part of this prospectus. This prospectus and the information that we file later with the Commission may update and supersede the information we incorporate by reference. We incorporate by reference the documents listed below:

- (1) Our Annual Report on Form 10-K for the fiscal year ended December 31, 2002, filed with the Commission on March 28, 2003;
- (2) Our Current Report on Form 8-K, filed with the Commission on January 22, 2003;
- (3) Our Current Report on Form 8-K, filed with the Commission on February 14, 2003; and
- (4) Description of our capital stock in our Current Report on Form 8-K filed with the Commission on January 6, 1999.

In addition, except as specified below, any filings made by us with the Commission pursuant to Section 13(a), 13(c), 14 or 15(d) of the Exchange Act (1) after the date of the initial registration statement and prior to effectiveness of the registration statement and (2) otherwise prior to the termination of this offering, are hereby deemed to be incorporated by reference.

Information furnished under Items 9 or 12 of our Current Reports on Form 8-K is not incorporated by reference in this prospectus and the registration statement. We furnished information under Item 9 of our Current Reports on Form 8-K filed with the Commission on February 12, 2003 and March 20, 2003.

We will provide to each person, including any beneficial owner, to whom this prospectus is delivered a copy of any or all of the information that we have incorporated by reference into this prospectus but not delivered with this prospectus. To receive a free copy of any of the documents incorporated by reference in this prospectus, other than exhibits, unless they are specifically incorporated by reference in those documents, call or write to our Corporate Secretary, Corrections Corporation of America, 10 Burton Hills Boulevard, Nashville, Tennessee 37215 (telephone (615) 263-3000). The information relating to us contained in this prospectus does not purport to be comprehensive and should be read together with the information contained in the documents incorporated or deemed to be incorporated by reference in this prospectus. See also Where You Can Find Additional Information.

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**THE COMPANY**

**General**

We are the nation's largest owner and operator of private correctional and detention facilities and one of the largest prison operators in the United States behind only the federal government and four states. We provide the fundamental residential and health care services for our adult and juvenile inmates, as well as a variety of rehabilitation and educational programs designed to reduce recidivism and prepare our inmates for their successful reentry into society upon their release. Some of the additional services we offer include life skills training, basic education, employment training, religious services, behavioral rehabilitation and treatment, substance abuse treatment and work and recreational programs.

We provide our essential services through 59 facilities, including 38 facilities that we own, with a total design capacity of approximately 59,000 beds in 20 states and the District of Columbia. We also provide inmate transportation services for government agencies through our subsidiary, TransCor America, LLC. For the year ended December 31, 2002, we had revenues of \$962.8 million and operating income of \$130.0 million.

Our services address a total U.S. market that we believe exceeds \$50 billion, of which only approximately 6.1% is currently outsourced to the private sector. We believe that the U.S. market will demonstrate consistent growth over the next decade as a result of stricter sentencing guidelines, longer prison sentences and prison terms for juvenile offenders, as well as the growing demographic of the 14 to 24 year-old at-risk population. We also expect the size of the private market to grow as a result of governments' demonstrated need to augment their overcrowded and aging facilities, reduce costs, increase accountability and improve overall quality of service.

Under our management services contracts, government agencies pay us at an inmate per diem rate based upon actual or minimum guaranteed occupancy levels. Our management services contracts typically have terms of one to five years, and contain multiple renewal options exercisable at the option of the contracting government agency. More than 40 of our approximately 80 contracts are with government entities for which we have been providing services for five years or more. Our management services contracts provide a reliable source of revenue, reflected by the renewal of more than 95% of our contracts over the past four years.

We have increased our average compensated occupancy, based on rated capacity, for facilities in operation to 89.6% for the year ended December 31, 2002 from 88.4% for the year ended December 31, 2001. Our average compensated occupancy for facilities in operation for the quarter ended December 31, 2002 was 91.2%.

**Recent and Proposed Transactions**

We completed the sale of \$250.0 million aggregate principal amount of 9.875% senior notes (due May 1, 2009) and obtained a new senior secured credit facility in May 2002. See "Description of Certain Existing Indebtedness and Outstanding Preferred Stock - Senior Secured Credit Facility and 9.875% Senior Notes." The purpose of these transactions was to refinance then existing bank indebtedness and redeem substantially all of our 12% senior notes due 2006.

Transactions currently contemplated by us include (i) a common stock offering of 7.6 million shares (of which 6.4 million are original issued shares by us) and (ii) a \$200.0 million aggregate principal amount senior notes offering. The proceeds of these two offerings are anticipated to be used to (a) fund a tender offer for approximately 4.2 million shares of our outstanding series B preferred stock at an offer price of \$26.00 per share, (b) purchase 3,362,899 shares of common stock (upon conversion of the \$40.0 million principal amount of our 10% convertible subordinated notes outstanding) and pay accrued interest of approximately \$15.3 million, and (c) redeem approximately 90% of the 4.3 million shares of our outstanding series A preferred stock. The May 2002 transactions and the proposed transactions are part of our plan to simplify our capital structure and reduce our overall cost of capital.

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In addition, in our proxy statement issued in connection with our 2003 annual meeting of stockholders, we have solicited stockholder approval of an increase in the number of shares of common stock available for issuance (1,500,000 additional shares) pursuant to our 2000 Stock Incentive Plan. We believe this increase is in the best interests of the company and our stockholders as it will provide us with sufficient shares under our equity compensation plans to continue our previously adopted equity based compensation program and to otherwise provide us with flexibility with respect to stock-based compensation and the establishment of appropriate long term incentives for our executive officers and key employees.

**Address and Telephone Number**

Our executive offices are located at 10 Burton Hills Boulevard, Nashville, Tennessee 37215. Our telephone number is (615) 263-3000. Our website address is <http://www.correctionscorp.com>. Information on our website is not a part of this prospectus.

**USE OF PROCEEDS**

Except as otherwise provided in the applicable prospectus supplement, we will use the net proceeds from the sale of the securities for general corporate purposes, which may include reducing our outstanding indebtedness, increasing our working capital, acquisitions and capital expenditures. Pending the application of the net proceeds, we expect to invest the proceeds in short-term, interest-bearing instruments or other investment-grade securities. We will not receive any proceeds from sales of shares of common stock by any selling stockholders.

**RATIO OF EARNINGS TO FIXED CHARGES**

The following table sets forth our ratios of earnings to fixed charges for the periods indicated:

Fiscal Years Ended				
December 31, 1998	December 31, 1999	December 31, 2000	December 31, 2001	December 31, 2002
2.4x	1.0x	N/A	1.1x	1.5x

For the purpose of computing the ratio of earnings to fixed charges, earnings consist of income from continuing operations plus fixed charges, excluding capitalized interest, and fixed charges consist of interest, whether expensed or capitalized, and amortization of loan costs. Deficiency in earnings available to cover fixed charges for the year ended December 31, 2000 was \$759.1 million. This deficit is primarily the result of impairment losses of \$527.9 million and the write-off of amounts under lease arrangements of \$11.9 million. See Management's Discussion and Analysis of Financial Condition and Results of Operations and our combined and consolidated financial statements and related notes, each of which is incorporated herein by reference.

**DESCRIPTION OF CERTAIN EXISTING INDEBTEDNESS AND****OUTSTANDING PREFERRED STOCK****Indebtedness*****Senior Secured Credit Facility***

*General.* Concurrently with the closing of the offering of our 9.875% notes in May 2002, we obtained a new senior secured credit facility with a syndicate of financial institutions and institutional lenders through the amendment and restatement of our then existing senior secured credit facility. Lehman Commercial Paper Inc. serves as administrative agent under our new facility.



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As of March 31, 2003, our senior secured credit facility is in the aggregate principal amount of \$745 million, consisting of:

an approximate four-year revolving credit facility of up to \$75 million in revolving credit loans and letters of credit;

an approximate four-year term loan A facility of \$75 million in term loans; and

an approximate six-year term loan B facility of \$595 million in term loans.

The revolving credit facility will be used for working capital and general corporate needs. Set forth below is a summary of the material terms of the new senior secured credit facility.

*Collateral and Guarantees.* The loans and other obligations under the senior secured credit facility are guaranteed by each of our domestic subsidiaries.

Our obligations under the senior secured credit facility and the guarantees are secured by:

a perfected first priority security interest in all of our tangible and intangible assets and all of the tangible and intangible assets of our subsidiaries, subject to certain customary exceptions; and

a pledge of all of the capital stock of our domestic subsidiaries and 65% of the capital stock of our foreign subsidiaries.

*Interest and Fees.* Our borrowings under the senior secured credit facility bear interest at a rate which, at our option, can be either:

a base rate generally defined as the sum of (i) the higher of (x) the prime rate (as quoted on the British Banking Association Telerate Page 5) and (y) the federal funds effective rate plus one-half percent (0.50%) per annum and (ii) an applicable margin; or

London InterBank Offering Rate, or LIBOR rate, which is generally defined as the sum of (i) the rate at which eurodollar deposits for one, two, three or six months (as selected by us) are offered in the interbank eurodollar market and (ii) an applicable margin.

The initial applicable margin for the base rate loans is 2.50%, and the applicable margin for the eurodollar loans is 3.50%. Commencing on the date of delivery of our financial statements occurring after the completion of two full fiscal quarters following the closing of the senior secured credit facility, the applicable margin for the revolving loans and term loan A will be subject to adjustment based on our leverage ratio.

Interest on our borrowings is payable quarterly in arrears for base rate loans and at the end of each interest rate period (but not less often than quarterly) for LIBOR rate-based loans.

We are also required to pay a commitment fee on the difference between committed amounts and amounts actually utilized under the revolving credit facility, which will be 0.50% per annum subject to adjustment based on our leverage ratio.

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*Repayments; Prepayments.* The term loan A facility and term loan B facility require quarterly installments in an aggregate principal amount for each year as set forth in the table below as of March 1, 2003 (in thousands):

	Term Loan A Facility	Term Loan B Facility	Total
2003	\$ 17,250	\$ 5,950	\$ 23,200
2004	20,250	5,950	26,200
2005	21,000	5,950	26,950
2006	5,250	5,950	11,200
2007		397,320	397,320
2008		169,643	169,643
	_____	_____	_____
<b>TOTAL</b>	<b>\$ 63,750</b>	<b>\$ 590,763</b>	<b>\$ 654,513</b>
	_____	_____	_____

Prepayments of loans outstanding are permitted at any time without premium or penalty, upon the giving of proper notice. In addition, we are required to prepay amounts outstanding under our senior secured credit facility in an amount equal to:

50% of the net cash proceeds from any sale or issuance of equity by us or any of our subsidiaries, subject to certain exceptions;

100% of the net cash proceeds from any incurrence of additional indebtedness (excluding certain permitted debt), subject to certain exceptions;

100% of the net cash proceeds from any sale or other disposition by us, or any of our subsidiaries, of any assets, subject to certain exclusions and reinvestment provisions and excluding certain dispositions in the ordinary course; and

50% of excess cash flow for each fiscal year.

*Certain Covenants.* The senior secured credit facility requires us to meet certain financial tests, including, without limitation:

a minimum fixed charge coverage ratio requiring that at the end of each fiscal quarter, our Consolidated EBITDA, as defined under the facility, be no less than a range of percentages (ranging from 100% to 115% over the six year term of the senior secured credit facility) of our Consolidated Fixed Charges, as defined under the facility, (minus the aggregate amount actually paid by us or any of our subsidiaries in cash during such period on account of capital expenditures) for the most recent four fiscal quarters;

a maximum leverage ratio requiring that at the end of each fiscal quarter, our Consolidated Debt, as defined under the facility, be no greater than a range of percentages (ranging from 590% to 350% over the six year term of the senior secured credit facility) of our Consolidated EBITDA, as defined under the facility, for the most recent four fiscal quarters; and

a minimum interest coverage ratio requiring that at the end of each fiscal quarter, our Consolidated EBITDA (including the interest component of all payments associated with capital lease obligations) be no less than a range of percentages (generally ranging from 150% to 250% over the six year term of the senior secured credit facility) of our Consolidated Interest Expense, as defined under the facility, for the most recent four fiscal quarters.

As of December 31, 2002, we were in compliance with the foregoing covenants, and we believe that we are currently in compliance with these covenants. In addition, our senior secured credit facility contains certain covenants which, among other things, limit the incurrence of additional indebtedness, investments, dividends, transactions with affiliates, assets sales, acquisitions, capital expenditures, mergers and consolidations, prepayments of other indebtedness, liens and encumbrances and other matters customarily restricted in such agreements.

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*Events of Default.* Our senior secured credit facility contains customary events of default, including, without limitation, payment defaults, breaches of representations and warranties, covenant defaults, cross-defaults to certain other material indebtedness in excess of specified amounts, certain events of bankruptcy and insolvency, certain ERISA events, judgment defaults in excess of specified amounts, termination or amendment of certain material agreements if such termination or amendment could reasonably be expected to be materially adverse to the lenders or otherwise have a material adverse effect and change in control.

**9.875% Senior Notes**

*General.* We currently have \$250.0 million in aggregate principal amount of 9.875% senior unsecured notes outstanding. These notes mature on May 1, 2009 and bear interest at 9.875% per annum. Payments of accrued but unpaid interest on these notes are due on May 1 and November 1 of each year, beginning on November 1, 2002. The notes are guaranteed by all of our domestic subsidiaries (other than our Puerto Rican subsidiary). The notes and subsidiary guarantees are senior obligations of ours and our subsidiary guarantors. Accordingly, they rank:

equally with all of our and our subsidiary guarantors' existing and future unsecured senior debt;

ahead of any of our and our subsidiary guarantors' future debt that expressly provides for subordination to the notes or the guarantees; and

subordinated to any of our and our subsidiary guarantors' secured indebtedness to the extent of the value of the security for that indebtedness.

The indenture governing the notes permits us and the guarantors to incur substantial additional senior indebtedness. Our ability to incur any additional indebtedness is limited by the specific terms of the indenture governing the notes.

*Optional Redemption.* At any time on or prior to May 1, 2005, we may on any one or more occasions redeem up to 35% of the aggregate principal amount of outstanding notes at a redemption price of 109.875% of the principal amount, plus accrued and unpaid interest and liquidated damages, if any, to the redemption date, with the net cash proceeds of one or more equity offerings; provided that:

at least 65% of the aggregate principal amount of notes issued under the indenture remains outstanding immediately after the occurrence of such redemption (excluding notes held by us and our subsidiaries); and

the redemption occurs within 90 days of the date of the closing of such equity offering.

Except pursuant to the preceding paragraph, the notes will not be redeemable at our option prior to May 1, 2006.

Beginning May 1, 2006, we may, at our option, redeem all or a part of the notes upon not less than 30 nor more than 60 days' notice, at the redemption prices (expressed as percentages of principal amount) set forth below plus accrued and unpaid interest and liquidated damages, if any, on the notes redeemed, to the applicable redemption date, if redeemed during the 12-month period beginning on May 1 of the years indicated below:

Year	Percentage
2006	104.938%
2007	102.469%
2008 and thereafter	100.000%

*Mandatory Offer to Repurchase.* If we sell certain assets or experience specific kinds of changes in control, we must offer to repurchase the notes at the prices, plus accrued and unpaid interest and liquidated damages, if any, to the date of redemption, listed in the indenture. Change of control includes the following events under specified circumstances: (i) the sale, lease, transfer, conveyance or other



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disposition of all or substantially all of our property or assets, (ii) the approval of our stockholders to dissolve or liquidate the company, (iii) the consummation of any transaction in which 50% or more of our outstanding stock is purchased by a third party, (iv) the merger or consolidation of us into another entity and (v) certain changes in the composition of our board of directors. Sufficient funds may not be available to us, however, at the time of any change of control event to repurchase all or a portion of notes tendered pursuant to this requirement.

*Certain Covenants.* Covenants in the indenture restrict our ability and the ability of our subsidiaries, with exceptions, to, among other things, pay dividends, incur additional debt or issue preferred stock, create or permit to exist certain liens, incur restrictions on the ability of certain of our subsidiaries to pay dividends or other payments, consolidate, merge or transfer all or substantially all of our assets and enter into transactions with affiliates. These covenants are subject to a number of important exceptions and qualifications.

*Events of Default.* Each of the following is an event of default under the 9.875% notes indenture:

default for 30 days in the payment when due of interest on, or liquidated damages with respect to, the notes;

default in payment when due of the principal of, or premium, if any, on the notes;

failure by us or any of our subsidiaries to comply with our obligation to repurchase the notes upon a change of control or sale of assets, or comply with merger covenants;

failure by us or any subsidiary guarantor for 60 consecutive days after notice to comply with any of the other agreements in the indenture;

default under any mortgage, indenture or instrument under which there may be issued or by which there may be secured or evidenced any indebtedness for money borrowed if that default:

- (a) is caused by a failure to pay principal of, or interest or premium, if any, on such indebtedness prior to the expiration of the grace period; or
- (b) results in the acceleration of such indebtedness prior to its express maturity, and, in each case, the principal amount of any such indebtedness, together with the principal amount of any other such indebtedness under which there has been a default or the maturity of which has been so accelerated, aggregates \$25.0 million or more;

failure by us or any subsidiaries to pay final judgments aggregating in excess of \$25.0 million, which judgments are not paid, discharged or stayed for a period of 60 days.

except as permitted by the indenture, any subsidiary guarantee shall be held in any judicial proceeding to be unenforceable or invalid or shall cease for any reason to be in full force and effect or any guarantor, or any person acting on behalf of any guarantor, shall deny or disaffirm its obligations under its subsidiary guarantee; and

certain events of bankruptcy or insolvency described in the indenture with respect to us or any of our subsidiaries.

***\$70 Million Convertible Subordinated Notes***

*\$40 Million Convertible Subordinated Notes.* We currently have outstanding an aggregate of \$40.0 million of 10% convertible subordinated notes due December 31, 2008. The conversion price for the notes, which are convertible into shares of our common stock, has been established at \$11.90, subject to adjustment in the future upon the occurrence of certain events. At an adjusted conversion price of \$11.90, the \$40.0 million convertible subordinated notes are currently convertible into 3,362,899 shares of our common stock.

All or a portion of the notes may be converted by the holder at any time prior to December 31, 2008, or if the notes are called for redemption by us, at any time prior to the second business day prior to the date of redemption. We may redeem all, but not a portion, of the notes on or following January 1, 2005 at

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a redemption price equal to the outstanding principal amount of the notes plus all accrued and unpaid interest. In addition, in the event of a change of control or similar event, the holder of the notes has the right to require us to repurchase all or a portion of the notes at a price equal to 105% of the notes' principal amount, plus accrued and unpaid interest. The current terms of our senior indebtedness, however, would prevent a redemption or repurchase of the notes.

*\$30 Million Convertible Subordinated Notes.* We currently have outstanding an aggregate of \$30.0 million of 8% convertible subordinated notes due February 28, 2005, subject to extension of such maturity until February 28, 2006 or February 28, 2007 by the holder. The Company and the holder have agreed to amend these notes to bear interest at 4% per year to a maturity date of February 28, 2007, expected to be effective on or about May 7, 2003. The conversion price for the notes, which are convertible into shares of our common stock, has been established at \$8.90, subject to adjustment in the future upon the occurrence of certain events. We currently estimate that the \$30.0 million convertible subordinated notes will be convertible into approximately 3.4 million shares of our common stock once all of the shares under the stockholder litigation settlement have been issued. See Management's Discussion and Analysis of Financial Condition and Results of Operations - Year Ended December 31, 2000 - Stockholder litigation settlement set forth in the Annual Report on Form 10-K incorporated herein by reference.

All or a portion of the notes may be converted by the holder at any time prior to the maturity date of the notes, or if the notes are subject to mandatory conversion, at any time prior to the third business day prior to the date of such conversion. At any time after February 28, 2004 (to be amended to February 28, 2005 effective on or about May 7, 2003), we may generally require the holder to convert all or a portion of the notes if the average market price of our common stock meets or exceeds 150% of the notes' conversion price, as may be adjusted. We may not prepay the indebtedness evidenced by the notes at any time prior to their maturity; provided, however, that in the event of a change of control or other similar event, the notes are subject to mandatory prepayment in full at the option of the holder. The current terms of our senior indebtedness, however, would prevent such a prepayment.

### *12% Senior Notes*

We currently have approximately \$10.8 million aggregate principal amount of 12% senior unsecured notes outstanding. These notes mature on June 1, 2006 and bear interest at 12% per annum. Payments of accrued but unpaid interest on these notes are due on June 1 and December 1 of each year.

On May 16, 2002, we completed an offer to purchase all these notes and a consent solicitation designed to remove, following the purchase of these notes, substantially all of the restrictive covenants and a number of the events of default that then applied to the notes. Pursuant to the terms of the offer to purchase and consent solicitation, holders of approximately \$89.2 million aggregate principal amount of the notes tendered their notes and received \$1,100 plus accrued and unpaid interest on such principal amount of notes for each \$1,000 principal amount of notes tendered.

As a result of this tender offer and consent solicitation, we have amended the indenture governing the notes to remove substantially all of the covenants and events of default. Such amendment became operative upon our purchase of the notes tendered in connection with the consent.

## **Preferred Stock**

### *Series A Preferred Stock*

We currently have 4.3 million shares of our series A preferred stock authorized, issued and outstanding. The series A preferred stock provides for the payment of quarterly cash dividends when and as declared by our board of directors at a rate of 8% per year, based on a liquidation price of \$25.00 per share. Unpaid dividends accrue without interest. Shares of our series A preferred stock are redeemable at our option at any time at \$25.00 per share, plus dividends accrued and unpaid to the redemption date. The series A preferred stock has no mandatory redemption, sinking fund provision or stated maturity and is not convertible into any other security. Under the terms of our charter, in the event dividends are unpaid and

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in arrears for six or more quarterly periods, the holders of the shares of our series A preferred stock will have the right to elect two additional directors to our board of directors.

### ***Series B Preferred Stock***

We currently have 12.0 million shares of series B preferred stock authorized, of which approximately 4.7 million shares of our series B preferred stock are issued and outstanding as of March 31, 2003. The shares of our series B preferred stock currently outstanding provide for cumulative dividends payable at a rate of 12% per year of the stock's stated value of \$24.46. The dividends are payable quarterly, in arrears, in additional shares of series B preferred stock through the third quarter of 2003, and in cash thereafter, provided that all accrued and unpaid cash dividends have been made on our series A preferred stock. The shares of series B preferred stock are callable by us, at a price per share equal to the stated value of \$24.46, plus any accrued dividends, no earlier than three years and six months following the date of issuance, and our ability to call the series B preferred stock may be otherwise restricted by our outstanding indebtedness. The series B preferred stock has no mandatory redemption, sinking fund provision or stated maturity and is not convertible into any other security, except that it may be convertible into our common stock if we engage in certain mergers or reorganizations. The series A preferred stock ranks senior to the series B preferred stock as to dividend distributions and distributions upon liquidation, winding up and dissolution. Under the terms of our charter, in the event dividends are unpaid and in arrears for six or more quarterly periods, the holders of the shares of our series B preferred stock will have the right to elect two additional directors to our board of directors.

### **Registration Rights**

The holders of some of our convertible notes have registration rights with respect to (i) the shares of our common stock into which the notes are convertible (6,732,498 shares as of March 31, 2003). In addition, the holders of warrants to purchase 75,069 shares of our common stock is entitled to certain registration rights. Under the terms of agreements between the Company and the note holders and the warrant holder, respectively, if we propose to register any common equity securities or securities convertible into common equity under the Securities Act, such holders are entitled to notice of such registration and are entitled to include those shares of such common stock therein, subject to certain conditions and limitations.

The summaries of selected provisions of our common stock, preferred stock and existing notes and other indebtedness appearing in this prospectus are not complete. Those summaries are subject to, and are qualified entirely by, the provisions of our charter, bylaws and debt agreements, all of which are included or incorporated by reference as exhibits to the registration statement of which this prospectus is a part. You should read our charter, bylaws and debt agreements. The applicable prospectus supplement may also contain a summary of selected provisions of our preferred stock, common stock and debt agreements. To the extent that any particular provision described in a prospectus supplement differs from any of the provisions described in this prospectus, then the provisions described in this prospectus will be deemed to have been superseded by that prospectus supplement.

### **Provisions of Maryland Law and Our Charter and Bylaws**

#### ***Anti-takeover Effect of Our Charter and Bylaws and Maryland Law***

Our charter and bylaws contain certain provisions that could make it more difficult to consummate an acquisition of us by means of a tender offer, a proxy contest or otherwise that stockholders may consider favorable. Certain provisions of our charter, bylaws and Maryland law may have the effect of discouraging an acquisition of control or other takeover attempt not approved by our board of directors. These provisions include the ability of the board of directors to issue blank check preferred stock without stockholder approval, advance notice procedures for stockholders to nominate candidates for election as directors, and higher stockholder voting requirements for some transactions, including business combinations with certain classes of interested stockholders.

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### ***Stockholder Advance Notice Procedure***

Our bylaws establish an advance notice procedure for stockholders to make nominations of candidates for election as directors or to bring other business before an annual meeting of the stockholders. The stockholder notice procedure provides that only persons that are nominated by the board of directors or by a stockholder who has given timely written notice to our secretary before the meeting at which directors are to be elected, will be eligible for election as directors. This notice is required to include specified information about the stockholder and each proposed director nominee and any other information regarding each proposed nominee that would be required to be included in a proxy statement filed under SEC rules and regulations, and the written consent of each proposed nominee to serve as a director if elected. The stockholder notice procedure provides that the only business that may be conducted at an annual meeting is business that has been brought before the meeting by, or at the direction of, the board of directors or by a stockholder who has given timely written notice to our secretary. This notice is required to include a brief description of the business desired to be brought before the meeting, the reasons for conducting such business at the meeting, any material interest of the stockholder in that business, and specified information about the stockholder and the stockholder's ownership of shares of our capital stock.

### ***Maryland Business Combination Act***

Under Maryland law, certain business combinations (including a merger, consolidation, share exchange, or, in certain circumstances, an asset transfer or issuance or reclassification of equity securities) between a Maryland corporation and any person who beneficially owns 10% or more of the voting power of the corporation's shares or an affiliate of the corporation who at any time within the two-year period prior to the date in question, was the beneficial owner of 10% or more of the voting power of the then-outstanding voting shares of the corporation (an Interested Stockholder) or an affiliate thereof are prohibited for five years after the most recent date on which the Interested Stockholder became an Interested Stockholder. Thereafter, any such business combination must be recommended by the board of directors of such corporation and approved by the affirmative vote of at least (a) 80% of the votes entitled to be cast by holders of outstanding voting shares of the corporation and (b) two-thirds of the votes entitled to be cast by holders of outstanding voting shares of the corporation other than shares held by the Interested Stockholder with whom the business combination is to be effected, unless among other things, the corporation's stockholders receive a minimum price, as defined in the Maryland General Corporation Law (MGCL) for their shares and the consideration is received in cash or in the same form as previously paid by the Interested Stockholder for its shares. The board of directors of the corporation may, by resolution, exempt business combinations specifically, generally, or generally by types from the prohibitions of the business combinations law, but such exemption with respect to a potential acquirer must be in place before the potential acquirer becomes an Interested Stockholder.

MGCL prevents, subject to some exceptions, an acquirer who acquires enough shares to exercise specified percentages of voting power of a corporation from having any voting rights except to the extent approved by two-thirds of the votes entitled to be cast on the matter not including shares of stock owned by the acquiring person and any officers or directors who are employees of the corporation. These provisions are referred to as the Control Share Statute.

The Control Share Statute does not apply to shares acquired in a merger, consolidation or share exchange if the corporation is a party to the transaction, or to acquisitions approved or exempted by a corporation's charter or bylaws. Our bylaws contain a provision exempting acquisitions of shares of our stock from the Control Share Statute. We can amend or limit this provision in the future. If we eliminate this exemption in the bylaws, the Control Share Statute could discourage offers to acquire our stock and could increase the difficulty of completing an offer.

### ***Maryland Unsolicited Takeovers Act***

We are subject to Sections 3-800 *et. seq.* of the MGCL (the Unsolicited Takeovers Act), which permit certain modifications of our corporate governance without stockholder approval. The Unsolicited

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Takeovers Act applies to Maryland corporations that (1) have not opted out of the coverage of the Unsolicited Takeovers Act and (2) are reporting companies under the Exchange Act and have at least three directors who (i) are not officers or employees of the corporation; (ii) are not persons seeking to acquire control of the corporation ( Acquiring Persons ); (iii) are not directors, officers, affiliates or associates of an Acquiring Person; and (iv) were not nominated or designated as directors by an Acquiring Person. In general, the Unsolicited Takeovers Act provides Maryland corporations with the ability to opt into the relevant provisions, in whole or in part, by action of the board of directors without obtaining stockholder approval to:

Stagger their boards of directors into three classes;

Provide that stockholders may remove any director by the affirmative vote of at least two-thirds of all of the votes entitled to be cast by the stockholders generally in the election of directors;

Provide that the number of directors may be fixed only by the vote of the board;

Provide that each vacancy on the board of directors may be filled only by the affirmative vote of a majority of the remaining directors in office, even if the remaining directors do not constitute a quorum; and

Provide that a special stockholders meeting may be called only upon the written request of the stockholders entitled to cast at least a majority of all the votes entitled to be cast at the meeting.

We have not opted out of the Unsolicited Takeovers Act.

### **GENERAL DESCRIPTION OF SECURITIES WE MAY OFFER**

We, directly or through agents, dealers or underwriters designated from time to time, may offer, issue and sell, together or separately, up to \$700,000,000 in aggregate offering price of:

secured or unsecured debt securities, in one or more series, which may be either senior debt securities, senior subordinated debt securities or subordinated debt securities;

guarantees of our obligations under the debt securities;

shares of our preferred stock, par value \$0.01 per share, in one or more classes or series;

shares of our common stock, par value \$0.01 per share, in one or more classes;

warrants to purchase our common stock; or

any combination of the foregoing, either individually or as units consisting of one or more of the foregoing, each on terms to be determined at the time of sale.

In addition, selling stockholders named in a prospectus supplement as we may permit, may offer and sell up to 5,786,389 shares of our common stock from time to time, as described in the applicable prospectus supplement. We may issue the debt securities as exchangeable and/or convertible debt securities exchangeable for or convertible into shares of common stock or preferred stock. The preferred stock may also be exchangeable for and/or convertible into shares of common stock or another series of preferred stock. The debt securities, the guarantees, the preferred stock, the common stock and the warrants are collectively referred to herein as the Securities. When a particular series of Securities is offered, a supplement to this prospectus will be delivered with this prospectus, which will set forth the terms of the offering and sale of the offered Securities.

### **DESCRIPTION OF DEBT SECURITIES**

We summarize below some of the provisions that will apply to the debt securities unless the applicable prospectus supplement provides otherwise. This summary may not contain all information that is important to you. The complete terms of the debt securities will be contained in the applicable notes. The



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notes have been or will be included or incorporated by reference as exhibits to the registration statement of which this prospectus is a part. You should read the provisions of the notes. You should also read the prospectus supplement, which will contain additional information and which may update or change some of the information below.

### **General**

The terms of each series of debt securities will be established by or pursuant to (a) a supplemental indenture, (b) a resolution of our board of directors, or (c) an officers certificate pursuant to authority granted under a resolution of our board of directors. The particular terms of each series of debt securities will be described in a prospectus supplement relating to such series (including any pricing supplement). In the event of any discrepancy or conflict between the terms of a particular series of debt securities as set forth in a prospectus supplement and the terms described in this prospectus, the terms set forth in the prospectus supplement will govern such series.

We can issue an unlimited amount of debt securities under the indenture. Such debt securities may be issued in one or more series, with the same or various maturities, at par, at a premium, or at a discount. We will set forth in a prospectus supplement (including any pricing supplement) relating to any series of debt securities being offered, the aggregate principal amount and the following terms of the debt securities:

the title of the debt securities;

the price or prices (expressed as a percentage of the principal amount) at which we will sell the debt securities;

any limit on the aggregate principal amount of the debt securities;

the date or dates on which we will pay the principal on the debt securities;

the rate or rates (which may be fixed or variable) per annum or the method used to determine the rate or rates (including any commodity, commodity index, stock exchange index or financial index) at which the debt securities will bear interest, the date or dates from which interest will accrue, the date or dates on which interest will commence and be payable and any regular record date for the interest payable on any interest payment date;

the place or places where principal of, premium and interest on the debt securities will be payable;

the terms and conditions upon which we may redeem the debt securities;

any obligation we have to redeem or purchase the debt securities pursuant to any sinking fund or analogous provisions or at the option of a holder of debt securities;

the dates on which and the price or prices at which we will repurchase debt securities at the option of the holders of debt securities and other detailed terms and provisions of these repurchase obligations;

the denominations in which the debt securities will be issued, if other than denominations of \$1,000 and any integral multiple thereof;

whether the debt securities will be issued in the form of certificated debt securities or global debt securities;

the portion of principal amount of the debt securities payable upon declaration of acceleration of the maturity date, if other than the principal amount;

the currency of denomination of the debt securities;

the designation of the currency, currencies or currency units in which payment of principal of, premium and interest on the debt securities will be made;

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if payments of principal of, premium or interest on the debt securities will be made in one or more currencies or currency units other than that or those in which the debt securities are denominated, the manner in which the exchange rate with respect to these payments will be determined;

the manner in which the amounts of payment of principal of, premium or interest on the debt securities will be determined, if these amounts may be determined by reference to an index based on a currency or currencies other than that in which the debt securities are denominated or designated to be payable or by reference to a commodity, commodity index, stock exchange index or financial index;

any provisions relating to any security provided for the debt securities;

any addition to or change in the Events of Default described in this prospectus or in the indenture with respect to the debt securities and any change in the right of the trustee or the requisite holder of the debt securities and any change in the acceleration provisions described in this prospectus or in the indenture with respect to the debt securities;

any provisions relating to any guarantees of the debt securities;

any addition to or change in the covenants described in this prospectus or in the indenture with respect to the debt securities;

any other terms of the debt securities, which may modify or delete any provision of the indenture as it applies to that series;

any depositaries, interest rate calculation agents, exchange rate calculation agents or other agents with respect to the debt securities;

the date as of which any temporary security representing outstanding securities of or within a series shall be dated if other than the date of original issuance of the first security of the series to be issued;

the applicability, if any, of legal defeasance and covenant defeasance to the securities of or within the series and any provisions in modification of, in addition to or in lieu of any of the related provisions;

if the securities of such series are to be issuable in definitive form (whether upon original issue or upon exchange of a temporary security of such series) only upon receipt of certain certificates or other documents or satisfaction of other conditions, then the form and/or terms of such certificates, documents or conditions;

if the securities of or within the series are to be issued upon the exercise of debt warrants, the time, manner and place for such securities to be authenticated and delivered;

whether and under what circumstances we will pay any additional amounts on the securities of or within the series to any holder who is not a United States person (including any modification to the definition of such term) in respect of any tax, assessment or governmental charge and, if so, whether we will have the option to redeem such securities rather than pay such additional amounts (and the terms of any such option);

our obligation, if any, to permit the securities of such series to be converted into or exchanged for our common stock or other securities or property and the terms and conditions upon which such conversion or exchange shall be effected (including, without limitation, the initial conversion or exchange price or rate, the conversion or exchange period, any adjustment of the applicable conversion or exchange price or rate and any requirements relative to the reservation of such shares for purposes of conversion or exchange);

if convertible or exchangeable, any applicable limitations on the ownership or transferability of the securities or property into which such securities are convertible or exchangeable; and



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the applicability of provisions relating to the guarantee, if any, of the securities of or within the series and any provisions in modification, in addition to or in lieu of any of the provisions related to any such guarantee.

In addition, the indenture does not limit our ability to issue convertible or subordinated debt securities. Any conversion or subordination provisions of a particular series of debt securities will be set forth in the supplemental indenture, board resolution or officer's certificate related to that series of debt securities and will be described in the relevant prospectus supplement. Such terms may include provisions for conversion, either mandatory, at the option of the holder or at our option, in which case the number of shares of common stock or other securities to be received by the holders of debt securities would be calculated as of a time and in the manner stated in the prospectus supplement.

We may issue debt securities that provide for an amount less than their stated principal amount to be due and payable upon declaration of acceleration of their maturity pursuant to the terms of the indenture. We will provide you with information on the federal income tax considerations and other special considerations applicable to any of these debt securities in the applicable prospectus supplement.

If we denominate the purchase price of any of the debt securities in a foreign currency or currencies or a foreign currency unit or units, or if the principal of and any premium and interest on any series of debt securities is payable in a foreign currency or currencies or a foreign currency unit or units, we will provide you with information on the restrictions, elections, general tax considerations, specific terms and other information with respect to that issue of debt securities and such foreign currency or currencies or foreign currency unit or units in the applicable prospectus supplement.

## **Transfer and Exchange**

Each debt security will be represented by either (a) one or more global securities registered in the name of The Depository Trust Company, as Depository (the "Depository"), or a nominee (we will refer to any debt security represented by a global debt security as a "book-entry debt security"), or (b) a certificate issued in definitive registered form (we will refer to any debt security represented by a certificated security as a "certificated debt security") as set forth in the applicable prospectus supplement. Except as set forth under the heading "Global Debt Securities and Book-Entry System" below, book-entry debt securities will not be issuable in certificated form.

***Certificated Debt Securities.*** You may transfer or exchange certificated debt securities at any office we maintain for this purpose in accordance with the terms of the indenture. No service charge will be made for any transfer or exchange of certificated debt securities, but we may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection with a transfer or exchange.

You may effect the transfer of certificated debt securities and the right to receive the principal of, premium and interest on certificated debt securities only by surrendering the certificate representing those certificated debt securities and either reissuance by us or the trustee of the certificate to the new holder or the issuance by us or the trustee of a new certificate to the new holder.

***Global Debt Securities and Book-Entry System.*** Each global debt security representing book-entry debt securities will be deposited with, or on behalf of, the Depository, and registered in the name of the Depository or a nominee of the Depository.

The Depository has indicated it intends to follow the following procedures with respect to book-entry debt securities.

Ownership of beneficial interests in book-entry debt securities will be limited to persons that have accounts with the Depository for the related global debt security ("participants") or persons that may hold interests through participants. Upon the issuance of a global debt security, the Depository will credit, on its book-entry registration and transfer system, the participants' accounts with the respective principal amounts of the book-entry debt securities represented by such global debt security beneficially owned by such participants. The accounts to be credited will be designated by any dealers, underwriters or agents

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participating in the distribution of the book-entry debt securities. Ownership of book-entry debt securities will be shown on, and the transfer of such ownership interests will be effected only through, records maintained by the Depository for the related global debt security (with respect to interests of participants) and on the records of participants (with respect to interests of persons holding through participants). The laws of some states may require that certain purchasers of securities take physical delivery of such securities in definitive form. These laws may impair the ability to own, transfer or pledge beneficial interests in book-entry debt securities.

So long as the Depository for a global debt security, or its nominee, is the registered owner of that global debt security, the Depository or its nominee, as the case may be, will be considered the sole owner or holder of the book-entry debt securities represented by such global debt security for all purposes under the indenture. Except as described below, beneficial owners of book-entry debt securities will not be entitled to have securities registered in their names, will not receive or be entitled to receive physical delivery of a certificate in definitive form representing securities and will not be considered the owners or holders of those securities under the indenture. Accordingly, each person beneficially owning book-entry debt securities must rely on the procedures of the Depository for the related global debt security and, if such person is not a participant, on the procedures of the participant through which such person owns its interest, to exercise any rights of a holder under the indenture.

We understand that under existing industry practice, the Depository will authorize the persons on whose behalf it holds a global debt security to exercise certain rights of holders of debt securities, and the indenture provides that we, the trustee and our respective agents will treat as the holder of a debt security the persons specified in a written statement of the Depository with respect to that global debt security for purposes of obtaining any consents or directions required to be given by holders of the debt securities pursuant to the indenture.

We will make payments of principal of, and premium and interest on book-entry debt securities to the Depository or its nominee, as the case may be, as the registered holder of the related global debt security. We, the trustee and any other agent of ours or agent of the trustee will not have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial ownership interests in a global debt security or for maintaining, supervising or reviewing any records relating to beneficial ownership interests.

We expect that the Depository, upon receipt of any payment of principal of, premium or interest on a global debt security, will immediately credit participants' accounts with payments in amounts proportionate to the respective amounts of book-entry debt securities held by each participant as shown on the records of such Depository. We also expect that payments by participants to owners of beneficial interests in book-entry debt securities held through those participants will be governed by standing customer instructions and customary practices, as is now the case with the securities held for the accounts of customers in bearer form or registered in street name, and will be the responsibility of those participants.

We will issue certificated debt securities in exchange for each global debt security if the Depository is at any time unwilling or unable to continue as Depository or ceases to be a clearing agency registered under the Exchange Act, and a successor Depository registered as a clearing agency under the Exchange Act is not appointed by us within 90 days. In addition, we may at any time and in our sole discretion determine not to have the book-entry debt securities of any series represented by one or more global debt securities and, in that event, will issue certificated debt securities in exchange for the global debt securities of that series. Global debt securities will also be exchangeable by the holders for certificated debt securities if an Event of Default with respect to the book-entry debt securities represented by those global debt securities has occurred and is continuing. Any certificated debt securities issued in exchange for a global debt security will be registered in such name or names as the Depository shall instruct the trustee. We expect that such instructions will be based upon directions received by the Depository from participants with respect to ownership of book-entry debt securities relating to such global debt security.

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We have obtained the foregoing information concerning the Depositary and the Depositary's book-entry system from sources we believe to be reliable, but we take no responsibility for the accuracy of this information.

### **No Protection In the Event of a Change of Control**

Unless otherwise provided by the terms of an applicable series of debt securities, the debt securities will not contain any provisions which may afford holders of the debt securities protection in the event we have a change in control or in the event of a highly leveraged transaction (whether or not such transaction results in a change in control) which could adversely affect holders of debt securities.

### **Covenants**

We will set forth in the applicable prospectus supplement any restrictive covenants applicable to any issue of debt securities.

### **Consolidation, Merger and Sale of Assets**

Unless otherwise provided by the terms of an applicable series of debt securities, we may not consolidate with or merge with or into, or convey, transfer or lease all or substantially all of our properties and assets to, any person (a "successor person") unless:

we are the surviving corporation or the successor person (if other than us) is a corporation organized and validly existing under the laws of any U.S. domestic jurisdiction and expressly assumes our obligations on the debt securities and under the indenture;

immediately after giving effect to the transaction, no Event of Default, and no event which, after notice or lapse of time, or both, would become an Event of Default, shall have occurred and be continuing under the indenture; and

certain other conditions are met.

### **Events of Default**

Unless otherwise provided by the terms of an applicable series of debt securities, an "Event of Default" means any of the following with respect to a series of debt securities:

default in the payment of any interest upon any debt security of that series when it becomes due and payable, and continuance of that default for a period of 30 days (unless the entire amount of the payment is deposited by us with the trustee or with a paying agent prior to the expiration of the 30-day period);

default in the payment of principal of or premium on any debt security of that series when due and payable;

default in the deposit of any sinking fund payment, if any, when and as due in respect of any debt security of that series;

certain defaults under certain of our and our subsidiaries' mortgages, indentures or instruments under which there may be issued or by which there may be secured or evidenced any debt for money borrowed;

certain events of bankruptcy, insolvency or reorganization of ours; and

any other Event of Default provided with respect to debt securities of that series that is described in the applicable prospectus supplement accompanying this prospectus.

No Event of Default with respect to a particular series of debt securities (except as to certain events of bankruptcy, insolvency or reorganization) necessarily constitutes an Event of Default with respect to any other series of debt securities. The occurrence of an Event of Default may constitute an event of default

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under our bank credit agreements in existence from time to time. In addition, the occurrence of certain Events of Default or an acceleration under the indenture may constitute an event of default under certain of our other indebtedness outstanding from time to time.

Unless otherwise provided by the terms of an applicable series of debt securities, if an Event of Default with respect to debt securities of any series at the time outstanding occurs and is continuing, then the trustee or the holders of at least 25% in principal amount of the outstanding debt securities of that series may, by a notice in writing to us (and to the trustee if given by the holders), declare to be due and payable immediately the principal (or, if the debt securities of that series are discount securities, that portion of the principal amount as may be specified in the terms of that series) of and accrued and unpaid interest, if any, on all debt securities of that series. In the case of an Event of Default resulting from certain events of bankruptcy, insolvency or reorganization, the principal (or such specified amount) of and accrued and unpaid interest, if any, on all outstanding debt securities will become and be immediately due and payable without any declaration or other act on the part of the trustee or any holder of outstanding debt securities. At any time after a declaration of acceleration with respect to debt securities of any series has been made, but before a judgment or decree for payment of the money due has been obtained by the trustee, the holders of a majority in principal amount of the outstanding debt securities of that series may rescind and annul the acceleration if all Events of Default, other than the non-payment of accelerated principal and interest, if any, with respect to debt securities of that series, have been cured or waived as provided in the indenture. We refer you to the prospectus supplement relating to any series of debt securities that are discount securities for the particular provisions relating to acceleration of a portion of the principal amount of such discount securities upon the occurrence of an Event of Default.

The indenture provides that the trustee will be under no obligation to exercise any of its rights or powers under the indenture at the request of any holder of outstanding debt securities, unless the trustee receives indemnity satisfactory to it against any loss, liability or expense. Subject to certain rights of the trustee, the holders of a majority in principal amount of the outstanding debt securities of any series will have the right to direct the time, method and place of conducting any proceeding for any remedy available to the trustee or exercising any trust or power conferred on the trustee with respect to the debt securities of that series.

No holder of any debt security of any series will have any right to institute any proceeding, judicial or otherwise, with respect to the indenture or for the appointment of a receiver or trustee, or for any remedy under the indenture, unless:

that holder has previously given to the trustee written notice of a continuing Event of Default with respect to debt securities of that series; and

the holders of at least a 25% in principal amount of the outstanding debt securities of that series have made written request, and offered reasonable indemnity, to the trustee to institute the proceeding as trustee, and the trustee has not received from the holders of a majority in principal amount of the outstanding debt securities of that series a direction inconsistent with that request and has failed to institute the proceeding within 60 days.

Notwithstanding the foregoing, the holder of any debt security will have an absolute and unconditional right to receive payment of the principal of, premium and any interest on that debt security on or after the due dates expressed in that debt security and to institute suit for the enforcement of payment.

The indenture requires us, within 120 days after the end of our fiscal year, to furnish to the trustee a statement as to compliance with the indenture. The indenture provides that the trustee may withhold notice to the holders of debt securities of any series of any Default or Event of Default (except in payment on any debt securities of that series) with respect to debt securities of that series if it in good faith determines that withholding notice is in the interest of the holders of those debt securities.

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### **Modification and Waiver**

Unless otherwise provided by the terms of an applicable series of debt securities, we may modify and amend the indenture with the consent of the holders of at least a majority in principal amount of the outstanding debt securities of a series affected by the modifications or amendments. We may not make any modification or amendment without the consent of the holders of each affected debt security then outstanding if that amendment will:

change the amount of debt securities whose holders must consent to an amendment or waiver;

reduce the rate of or extend the time for payment of interest (including default interest) on any debt security;

reduce the principal of or premium on or change the fixed maturity of any debt security or reduce the amount of, or postpone the date fixed for, the payment of any sinking fund or analogous obligation with respect to any series of debt securities;

reduce the principal amount of discount securities payable upon acceleration of maturity;

waive a default in the payment of the principal of, premium or interest on any debt security (except a rescission of acceleration of the debt securities of any series by the holders of at least a majority in aggregate principal amount of the then outstanding debt securities of that series and a waiver of the payment default that resulted from such acceleration);

make the principal of or premium or interest on any debt security payable in currency other than that stated in the debt security;

make any change to certain provisions of the indenture relating to, among other things, the right of holders of debt securities to receive payment of the principal of, premium and interest on those debt securities and to institute suit for the enforcement of any such payment and to waivers or amendments; or

waive a redemption payment with respect to any debt security.

Except for certain specified provisions, the holders of at least a majority in principal amount of the outstanding debt securities of any series may on behalf of the holders of all debt securities of that series waive our compliance with provisions of the indenture. The holders of a majority in principal amount of the outstanding debt securities of any series may on behalf of the holders of all the debt securities of such series waive any past default under the indenture with respect to that series and its consequences, except a default in the payment of the principal of, premium or any interest on any debt security of that series or in respect of a covenant or provision which cannot be modified or amended without the consent of the holder of each outstanding debt security of the series affected; *provided, however*, that the holders of a majority in principal amount of the outstanding debt securities of any series may rescind an acceleration and its consequences, including any related payment default that resulted from the acceleration.

### **Defeasance of Debt Securities and Certain Covenants in Certain Circumstances**

**Legal Defeasance.** The indenture provides that, unless otherwise provided by the terms of the applicable series of debt securities, we may be discharged from any and all obligations in respect of the debt securities of any series (except for certain obligations to register the transfer or exchange of debt securities of such series, to replace stolen, lost or mutilated debt securities of such series, and to maintain paying agencies and certain provisions relating to the treatment of funds held by paying agents). We will be so discharged upon the deposit with the trustee, in trust, of money and/or U.S. Government Obligations or, in the case of debt securities denominated in a single currency other than U.S. Dollars, Foreign Government Obligations, that, through the payment of interest and principal in accordance with their terms, will provide money in an amount sufficient in the opinion of a nationally recognized firm of independent public accountants to pay and discharge each installment of principal, premium and interest

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on and any mandatory sinking fund payments in respect of the debt securities of that series on the stated maturity of those payments in accordance with the terms of the indenture and those debt securities.

This discharge may occur only if, among other things, we have delivered to the trustee an opinion of counsel stating that we have received from, or there has been published by, the United States Internal Revenue Service a ruling or, since the date of execution of the indenture, there has been a change in the applicable United States federal income tax law, in either case to the effect that, and based thereon such opinion shall confirm that, the holders of the debt securities of that series will not recognize income, gain or loss for United States federal income tax purposes as a result of the deposit, defeasance and discharge and will be subject to United States federal income tax on the same amounts and in the same manner and at the same times as would have been the case if the deposit, defeasance and discharge had not occurred.

***Defeasance of Certain Covenants.*** The indenture provides that, unless otherwise provided by the terms of the applicable series of debt securities, upon compliance with certain conditions:

we may omit to comply with the covenant described under the heading "Consolidation, Merger and Sale of Assets" and certain other covenants set forth in the indenture, as well as any additional covenants which may be set forth in the applicable prospectus supplement; and

any omission to comply with those covenants will not constitute a Default or an Event of Default with respect to the debt securities of that series ( "covenant defeasance" ).

The conditions include:

depositing with the trustee money and/or U.S. Government Obligations or, in the case of debt securities denominated in a single currency other than U.S. Dollars, Foreign Government Obligations, that, through the payment of interest and principal in accordance with their terms, will provide money in an amount sufficient in the opinion of a nationally recognized firm of independent public accountants to pay and discharge each installment of principal of, premium and interest on and any mandatory sinking fund payments in respect of the debt securities of that series on the stated maturity of those payments in accordance with the terms of the indenture and those debt securities; and

delivering to the trustee an opinion of counsel to the effect that the holders of the debt securities of that series will not recognize income, gain or loss for United States federal income tax purposes as a result of the deposit and related covenant defeasance and will be subject to United States federal income tax on the same amounts and in the same manner and at the same times as would have been the case if the deposit and related covenant defeasance had not occurred.

***Covenant Defeasance and Events of Default.*** In the event we exercise our option to effect covenant defeasance with respect to any series of debt securities and the debt securities of that series are declared due and payable because of the occurrence of any Event of Default, the amount of money and/or U.S. Government Obligations or Foreign Government Obligations on deposit with the trustee will be sufficient to pay amounts due on the debt securities of that series at the time of their stated maturity but may not be sufficient to pay amounts due on the debt securities of that series at the time of the acceleration resulting from the Event of Default. However, we shall remain liable for those payments.

***Foreign Government Obligations*** means, with respect to debt securities of any series that are denominated in a currency other than U.S. Dollars:

direct obligations of the government that issued or caused to be issued such currency for the payment of which obligations its full faith and credit is pledged which are not callable or redeemable at the option of the issuer thereof; or

obligations of a person controlled or supervised by or acting as an agency or instrumentality of that government the timely payment of which is unconditionally guaranteed as a full faith and credit obligation by that government which are not callable or redeemable at the option of the issuer thereof.

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**Governing Law**

The indenture and the debt securities will be governed by, and construed in accordance with, the internal laws of the State of New York.

**DESCRIPTION OF GUARANTEES**

Our wholly owned subsidiaries listed as co-registrants on our registration statement may in whole or in part enter into guarantees of our obligations under the debt securities on terms which will be described in any applicable prospectus supplement.

**DESCRIPTION OF PREFERRED STOCK**

We summarize below some of the provisions that will apply to the preferred stock unless the applicable prospectus supplement provides otherwise. This summary may not contain all information that is important to you. The complete terms of the preferred stock will be contained in the prospectus supplement. You should read the prospectus supplement, which will contain additional information and which may update or change some of the information below.

We have authority to issue 50 million shares of preferred stock. As of March 31, 2003, 4.3 million shares of our series A preferred stock were authorized, issued and outstanding and 12.0 million shares of our series B preferred stock were authorized, with approximately 4.7 million shares issued and outstanding. Our board of directors has the authority to create one or more new series of preferred stock, and to set or change the preferences, rights, privileges and restrictions of any series, including the dividend rights, conversion rights, voting rights, rights and terms of redemption, liquidation preferences, the number of shares constituting any such series and the designation of such series and to issue shares of preferred stock up to the maximum number of shares of preferred stock authorized.

The applicable prospectus supplement will describe the terms of any series of preferred stock being offered, including:

the number of shares and designation or title of the shares;

any liquidation preference per share;

any date of maturity;

any redemption, repayment or sinking fund provisions;

any dividend rate or rates payable with respect to the shares;

any voting rights;

the terms and conditions upon which the preferred stock is convertible or exchangeable, if it is convertible or exchangeable;

any conditions or restrictions on the creation of indebtedness by us or upon the issuance of any additional stock; and

any additional preferences, conversion or other rights, voting powers, restrictions, limitations as to dividends, qualifications, or terms or conditions of redemption.

All shares of preferred stock offered will, when issued against payment of the consideration payable therefore, be fully paid and non-assessable.

**DESCRIPTION OF COMMON STOCK**

We summarize below some of the provisions that will apply to the common stock unless the applicable prospectus supplement provides otherwise. This summary may not contain all information that is





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important to you. The complete terms of the common stock will be contained in the applicable prospectus supplement. You should read the prospectus supplement, which will contain additional information and which may update or change some of the information below.

We have authority to issue 80 million shares of common stock.

The holders of common stock are entitled to one vote per share on all matters to be voted on by stockholders, including the election of directors. Stockholders are not entitled to cumulative voting rights, and, accordingly, the holders of a majority of the shares voting for the election of directors can elect our entire board of directors. In that event, the holders of the remaining shares will not be able to elect any person to our board of directors. If certain defaults occur with respect to payment of dividends on our outstanding series A preferred stock or series B preferred stock, the holders of such affected shares will have the right to elect two additional directors on our board of directors.

The holders of common stock are entitled to receive such dividends, if any, as may be declared from time to time by our board of directors, in its discretion, from funds legally available therefor and subject to prior dividend rights of holders of any shares of preferred stock which may be outstanding. However, it is the present policy of our board of directors not to pay cash dividends on the common stock. Furthermore, the terms of our current credit arrangements restrict our ability to declare or pay dividends on our common stock. Upon our liquidation or dissolution, subject to prior liquidation rights of the holders of preferred stock and after payment or provision for all of our indebtedness and other liabilities, the holders of common stock are entitled to receive on a pro rata basis our remaining assets available for distribution. Holders of common stock have no preemptive or other subscription rights, and there are no conversion rights or redemption or sinking fund provisions with respect to such shares. All outstanding shares of common stock are, and all shares being offered by this prospectus will be when issued against payment of the consideration payable therefor, fully paid and not liable to further calls or assessment by us.

The ability of our board of directors to issue preferred stock with provisions determined by the board of directors, and some of the provisions in our charter and bylaws may have the effect of making it more difficult for a third party to acquire, or discouraging a third party from attempting to acquire, control of us. These provisions could limit the price investors may be willing to pay for our common stock, and may deprive holders of our common stock of any premium that they might otherwise realize from a takeover.

## **DESCRIPTION OF WARRANTS**

We summarize below some of the provisions that will apply to the warrants unless the applicable prospectus supplement provides otherwise. This summary may not contain all information that is important to you. The complete terms of the warrants will be contained in the applicable warrant certificate and warrant agreement. These documents have been or will be included or incorporated by reference as exhibits to the registration statement of which this prospectus is a part. You should read the warrant certificate and the warrant agreement. You should also read the prospectus supplement, which will contain additional information and which may update or change some of the information below.

### ***General***

We may issue warrants to purchase common stock independently or together with other securities. The warrants may be attached to or separate from the other securities. We may issue warrants in one or more series. Each series of warrants will be issued under a separate warrant agreement to be entered into between us and a warrant agent. The warrant agent will be our agent and will not assume any obligations to any holder or beneficial owner of the warrants.

The prospectus supplement and the warrant agreement relating to any series of warrants will include specific terms of the warrants. These terms include the following:

the title and aggregate number of warrants;

the price or prices at which the warrants will be issued;

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the amount of common stock for which the warrant can be exercised and the price or the manner of determining the price or other consideration to purchase the common stock;

the date on which the right to exercise the warrant begins and the date on which the right expires;

if applicable, the minimum or maximum amount of warrants that may be exercised at any one time;

if applicable, the designation and terms of the securities with which the warrants are issued and the number of warrants issued with each other security;

any provision dealing with the date on which the warrants and related securities will be separately transferable;

any mandatory or optional redemption provision;

the identity of the warrant agent; and

any other terms of the warrants.

The warrants will be represented by certificates. The warrants may be exchanged under the terms outlined in the warrant agreement. We will not charge any service charges for any transfer or exchange of warrant certificates, but we may require payment for tax or other governmental charges in connection with the exchange or transfer. Unless the prospectus supplement states otherwise, until a warrant is exercised, a holder will not be entitled to any payments on or have any rights with respect to the common stock acquirable upon exercise of such warrant.

***Exercise of Warrants***

To exercise the warrants, the holder must provide the warrant agent with the following:

payment of the exercise price;

any required information described on the warrant certificates;

the number of warrants to be exercised;

an executed and completed warrant certificate; and

any other items required by the warrant agreement.

If a warrant holder exercises only part of the warrants represented by a single certificate, the warrant agent will issue a new warrant certificate for any warrants not exercised. Unless the prospectus supplement states otherwise, no fractional shares will be issued upon exercise of warrants, but we will pay the cash value of any fractional shares otherwise issuable.

The exercise price and the number of shares of common stock for which each warrant can be exercised will be adjusted upon the occurrence of events described in the warrant agreement, including the issuance of a common stock dividend or a combination, subdivision or reclassification of common stock. Unless the prospectus supplement states otherwise, no adjustment will be required until cumulative adjustments require an adjustment of at least 1%. From time to time, we may reduce the exercise price as may be provided in the warrant agreement.

Unless the prospectus supplement states otherwise, if we enter into any consolidation, merger, or sale or conveyance of our property as an entirety, the holder of each outstanding warrant will have the right to acquire the kind and amount of shares of stock, other securities, property or cash receivable by a holder of the number of shares of common stock into which the warrants were exercisable immediately prior to the occurrence of the event.



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The common stock warrant agreement will permit us and the warrant agent, without the consent of the warrant holders, to supplement or amend the agreement in the following circumstances:

to cure any ambiguity;

to correct or supplement any provision which may be defective or inconsistent with any other provisions; or

to add new provisions regarding matters or questions that we and the warrant agent may deem necessary or desirable and which do not adversely affect the interests of the warrant holders.

**SELLING STOCKHOLDER INFORMATION**

The following information is provided with respect to Rolaco Holding S.A. and the potential selling stockholder whose shares of common stock are registered pursuant to this prospectus:

Name	Beneficial Ownership Prior to Offering		Number of Shares Being Registered	Number of Shares Being Offered
	Number of Shares	Percent		
Rolaco Holding S.A.(2)	2,341,789	8.3%	2,341,789	1,200,000(2)
Pacific Mezzanine Fund, L.P.(3)	3,518,379	11.1	3,369,599	(1)
<b>Total Shares of Common Stock Registered</b>			<b>5,711,388</b>	

\* Less than 1% of the outstanding shares of common stock.

- (1) To be determined at the time such selling stockholder elects to sell shares pursuant to this registration statement. If Pacific Mezzanine Fund, L.P. sells the 3,369,599 shares registered hereunder, it would continue to hold 148,780 shares of common stock, constituting less than 1% of our common stock.
- (2) Rolaco Holding S.A. ( Rolaco ) pursuant to a prospectus supplement intends to sell 1,200,000 shares pursuant to a firm commitment underwriting and has granted an over-allotment option for 1,140,000 shares to the underwriters. If all such shares of common stock are sold in the proposed transaction, Rolaco Holding S.A. will continue to hold 1,789 shares of common stock registered for future sale under the registration statement.

The number of shares of common stock beneficially owned is based on information provided by Rolaco. In addition, Rolaco has granted to underwriters the over-allotment option with respect to 1,140,000 shares. Rolaco's interest in us is held indirectly through Latonia International Limited, a company incorporated under the laws of the British Virgin Islands.

Rolaco purchased its shares in a privately negotiated transaction from another stockholder of the Company in mid-2001 as part of the other stockholder's termination of its interest in the Company. At the time, the Company made a public announcement of the completion of the transaction and entered into an agreement with Latonia International Limited pursuant to which Latonia International Limited agreed not to purchase additional shares of our common stock or otherwise attempt to acquire the Company. Mr. Abdulaziz A. Al-Sulaiman is the chairman of Rolaco and Mr. Paul Jeanbart is the managing director of Rolaco. By virtue of their relationships with Rolaco, Messrs Al-Sulaiman and Jeanbart may be deemed to share beneficial ownership of the shares of common stock held by Rolaco. Messrs Al-Sulaiman and Jeanbart disclaim such beneficial ownership except to the extent of their pecuniary interest in Rolaco.

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- (3) This beneficial ownership information is based on the terms of the Company's \$30.0 million 8% convertible subordinated notes due February 28, 2005 and the beneficial ownership of 148,780 shares of outstanding common stock. The holder of the notes may convert the notes into shares of common stock at a current conversion rate of 11.232 per \$100 of the notes (as adjusted to reflect the full issuance of shares in connection with the Company's stockholder litigation settlement). The current conversion rate of the notes is subject to adjustment upon the occurrence of future events. Pacific Mezzanine Investors, LLC is the general partner of Pacific Mezzanine Fund, L.P. Pacific Mezzanine Investors, LLC is managed by a management board consisting of Bob Bartholomew and Schuyler Lance, as Principals of its managing member, who jointly have power to vote shares on routine matters, and Sam Tang and Ronn Cornelius. The agreement of both Principals and one other member of the management board is required for disposition of shares or votes on non-routine matters. Therefore, the named members of the management board may be deemed to beneficially own such shares. Each member of the management board disclaims beneficial ownership except to the extent of any pecuniary interest in Pacific Mezzanine Fund L.P. and its general partner.

**PLAN OF DISTRIBUTION**

We or any selling stockholder may sell the securities to one or more underwriters for public offering and sale by them and may also sell the securities to investors directly or through agents. Any such underwriter or agent involved in the offer and sale of securities will be named in the applicable prospectus supplement. We have reserved the right to sell securities directly to investors on our own behalf in those jurisdictions where and in such manner as we are authorized to do so.

The distribution of the securities may be effected from time to time in one or more transactions at a fixed price or prices, which may be changed, or at market prices prevailing at the time of sale, at prices related to prevailing market prices, or at negotiated prices. Sales of common stock or preferred stock may be effected from time to time in one or more transactions on the New York Stock Exchange ( NYSE ) or in negotiated transactions or a combination of those methods. We or any selling stockholder may also, from time to time, authorize dealers, acting as our agents, to offer and sell securities upon the terms and conditions as are set forth in the applicable prospectus supplement. In connection with the sale of securities, underwriters may receive compensation from us or any selling stockholder in the form of underwriting discounts or commissions and may also receive commissions from purchasers of the securities for whom they may act as agent. Underwriters may sell securities to or through dealers, and those dealers may receive compensation in the form of discounts, concessions or commissions from the underwriters and/or commissions from the purchasers for whom they may act as agent. Any underwriter, dealer or agent will be identified, and any compensation received from us or a selling stockholder will be described in the prospectus supplement. Unless otherwise indicated in the prospectus supplement, an agent will be acting on a best efforts basis and a dealer will purchase securities as a principal, and may then resell such securities at varying prices to be determined by the dealer.

Any underwriting compensation paid by us or a selling stockholder to underwriters or agents in connection with the offering of securities, and any discounts, concessions or commissions allowed by underwriters to participating dealers, will be set forth in the applicable prospectus supplement. Dealers and agents participating in the distribution of securities may be deemed to be underwriters, and any discounts and commissions received by them and any profit realized by them on resale of the securities may be deemed to be underwriting discounts and commissions. Underwriters, dealers and agents may be entitled, under agreements entered into with us or a selling stockholder, to indemnification against and contribution toward certain civil liabilities, including liabilities under the Securities Act, and to reimbursement by us or a selling stockholder for expenses.

In compliance with National Association of Securities Dealers, Inc. ( NASD ) guidelines, the maximum commission or discount to be received by any NASD member or independent broker-dealer will not exceed 8% of the aggregate amount of any sale of securities offered pursuant to this prospectus or any applicable prospectus supplement under Rule 415.

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In connection with a sale of shares of common stock by any selling stockholder pursuant to this prospectus, the following information will, to the extent then required, be provided in a post-effective amendment to the registration statement relating to such sale:

the identity of the selling stockholder,

the manner in which the selling stockholder acquired the common stock from us,

the number of shares to be sold,

the purchase price,

the public offering price,

if applicable the name of any underwriter, agent or broker-dealer, and

any applicable commissions, discounts or other items constituting compensation to such underwriters, agents or broker-dealers with respect to the particular sale.

The potential selling stockholder, other than Rolaco Holding S.A. (holder of 2,341,789 shares subject to registration hereby), is the holder of the 8% convertible subordinated notes which are convertible into shares of our common stock. In accordance with applicable laws, under certain circumstances, a selling stockholder may be deemed to be an underwriter with respect to shares sold pursuant to this prospectus.

To facilitate an offering of a series of securities, persons participating in the offering may engage in transactions that stabilize, maintain, or otherwise affect the price of the securities. This may include over-allotments or short sales of the securities, which involves the sale by persons participating in the offering of more securities than have been sold to them by us or a selling stockholder. In those circumstances, such persons would cover such over-allotments or short positions by purchasing in the open market or by exercising the over-allotment option granted to those persons. In addition, those persons may stabilize or maintain the price of the securities by bidding for or purchasing securities in the open market or by imposing penalty bids, whereby selling concessions allowed to underwriters or dealers participating in any such offering may be reclaimed if securities sold by them are repurchased in connection with stabilization transactions. The effect of these transactions may be to stabilize or maintain the market price of the securities at a level above that which might otherwise prevail in the open market. Such transactions, if commenced, may be discontinued at any time.

Certain of the underwriters, dealers or agents and their associates may engage in transactions with and perform services for us in the ordinary course of business.

Any common stock sold pursuant to this prospectus will be listed on the NYSE, subject to official notice of issuance.

## **LEGAL MATTERS**

Certain legal matters with respect to securities offered hereby will be passed upon for us by Bass, Berry & Sims PLC, Nashville, Tennessee and for any selling stockholder, by the counsel named in the prospectus supplement. Latham & Watkins LLP, New York, New York, will act as counsel for any agents or underwriters identified in the applicable prospectus supplement. Bass, Berry & Sims PLC will rely upon Miles & Stockbridge P.C., Baltimore, Maryland as to all matters of Maryland law and on Sidley, Austin Brown & Wood LLP, New York, New York, as to all matters of New York law.

## **EXPERTS**

The 2002 and 2001 consolidated financial statements of Corrections Corporation of America and Subsidiaries as of and for the years ended December 31, 2002 and 2001 appearing in our Annual Report on Form 10-K for the year ended December 31, 2002, have been audited by Ernst & Young LLP, independent auditors, as set forth in their report thereon and included therein and incorporated herein by



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reference. Such consolidated financial statements are incorporated herein by reference in reliance upon such report given on the authority of such firm as experts in accounting and auditing. Ernst & Young LLP's report contains explanatory paragraphs describing (1) Corrections Corporation of America's adoption of certain new accounting standards effective January 1, 2002 and 2001 and (2) Ernst & Young LLP's audit procedures with respect to transitional disclosures related to the 2000 combined and consolidated financial statements required by Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets. Ernst & Young LLP was not engaged to audit, review, or apply any procedures to the 2000 financial statements other than with respect to the certain transitional disclosures and, accordingly, has not expressed an opinion or any other form of assurance on the 2000 financial statements.

The combined and consolidated financial statements and for the year ended December 31, 2000 incorporated by reference into this prospectus have been included in reliance on the report of Arthur Andersen LLP, independent certified public accountants, given authority of said firm as experts in auditing and accounting. Arthur Andersen LLP has not consented to the inclusion of their report in this prospectus, and we have dispensed with the requirement to file Arthur Andersen LLP's consent in reliance on Rule 437a under the Securities Act. Because Arthur Andersen LLP has not consented to the inclusion of their report in this prospectus, you may not be able to recover against Arthur Andersen LLP under Section 11 of the Securities Act for any untrue statement of a material fact contained in the financial statements audited by Arthur Andersen LLP or any omissions to state a material fact required to be stated in those financial statements.



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**\$250,000,000**

7 1/2% Senior Notes

due 2011

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**PROSPECTUS SUPPLEMENT**

May 2, 2003

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**LEHMAN BROTHERS**

**DEUTSCHE BANK SECURITIES**

**UBS WARBURG  
SG COWEN**

BB&T CAPITAL MARKETS

FIRST ANALYSIS SECURITIES CORPORATION  
JEFFERIES & COMPANY, INC.  
MORGAN JOSEPH & CO. INC.  
SOUTHTRUST SECURITIES, INC.