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.

	Per Note	Total
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   FIRST ANALYSIS SECURITIES CORPORATION
JEFFERIES & COMPANY, INC.   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 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 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.

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[(1)]	117,312
	$367,312

Uses of Funds

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

(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	The Notes and subsidiary guarantees are senior obligations of ours and our subsidiary guarantors. Accordingly, they will 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.
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	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: pay dividends or make other restricted payments; incur additional debt or issue preferred stock; create or permit to exist certain liens;

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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(1)
	(dollars in thousands, except per share amounts)			
Statements of Operations:				
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			
Total revenue	310,278	936,353	962,838	962,838
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			
Total expenses	863,817	809,315	832,859	832,859
Operating income (loss)	(553,539)	127,038	129,979	129,979
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			
Total other (income) expense	225,370	112,339	84,914	91,893
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
Income (loss) from continuing operations before minority interest, extraordinary charge and cumulative effect of accounting change	(730,907)	18,057	108,349	$101,370
Minority interest in net loss of PMSI and JJFMSI	125			
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)	

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

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	Year Ended December 31,		
	2000(5)	2001	2002
Facility Operating Data:			
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(6)	$ 45.94	$ 48.11	$ 49.32
Margin per compensated man-day(7)	$ 8.29	$ 11.01	$ 11.30

	As of December 31, 2002	
	Actual	As Adjusted(8)
	(dollars in thousands)	
Balance Sheet Data		
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

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.

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;

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 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 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 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

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 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 out 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 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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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.

Sources of Funds

	(dollars in thousands)
Notes	$ 250,000
Common Stock Offering, Net Proceeds[(1)]	117,312
	$ 367,312

Use of Funds

	(dollars in thousands)
Tender for Series B Preferred Stock[(2)]	$ 97,178
Redemption of Series A Preferred Stock	101,465
MDP Repurchase	81,070
Prepay Term Loans[(3)]	77,202
Fees and Expenses[(4)]	10,397
	$ 367,312

(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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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(1)
	(in thousands)	
Cash and cash equivalents	$ 65,406	$ 65,406
Long-term debt (including current maturities):		
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
Stockholders equity:		
Series A preferred stock	107,500	7,500(2)
Series B preferred stock	107,831	16,409(3)
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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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
ASSETS			
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
Total Current Assets	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
Total Assets	$ 1,874,071	$ 6,801	$ 1,880,872
LIABILITIES & STOCKHOLDERS EQUITY			
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
Total Current Liabilities	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
Total Liabilities	1,140,073	120,213	1,260,286
Stockholders Equity			
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)
Total Stockholders Equity	733,998	(113,412)	620,586
Total Liabilities & Stockholders Equity	$ 1,874,071	$ 6,801	$ 1,880,872

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

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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)

	Actual Year Ended December 31, 2002	Total Adjustments	Pro Forma Year Ended December 31, 2002
Revenues:			
Management and other	$959,137	$	$959,137
Rental	3,701		3,701
Total Revenues	962,838		962,838
Expenses:			
Operating	744,074		744,074
General and administrative	36,907		36,907
Depreciation and amortization	51,878		51,878
Operating Income	129,979		129,979
Other (Income) Expense:			
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)
	84,914	6,979	91,893
Income From Continuing Operations Before Income Taxes, Extraordinary Charge and Cumulative Effect of Accounting Change	45,065(D)	(6,979)	38,086(D)
Income tax benefit	63,284		63,284
Income From Continuing Operations Before Extraordinary Charge and Cumulative Effect of Accounting Change	108,349	(6,979)	101,370
Series A Preferred Stock Dividends	(8,600)	8,000**(B)**	(600)
Series B Preferred Stock Dividends	(12,359)	11,713**(B),(C)**	(646)
Income from Continuing Operations Available to Common Stockholders Before Extraordinary Charge and Cumulative Effect of Accounting Change	$ 87,390	$12,734	$100,124
EPS Basic:			
Income from continuing operations available to common stockholders before extraordinary charge and cumulative effect of accounting change	$ 3.17		$ 2.94
EPS Diluted:			
Income from continuing operations available to common stockholders before extraordinary charge and cumulative effect of accounting change	$ 2.75		$ 2.66

Weighted Average Shares:			
Basic	27,669	6,400	34,069
Diluted	35,574	3,037	38,611

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

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Corrections Corporation of America and Subsidiaries

Unaudited Pro Forma Condensed Consolidated Financial Statements
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(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)
Pro forma adjustment	$ 6,801

(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)
Pro forma adjustment	$132,798

(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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(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)
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
Pro forma adjustment	$13,416

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Corrections Corporation of America and Subsidiaries
Unaudited Pro Forma Condensed Consolidated Financial Statements
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(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)
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:

	10% Increase	10% Decrease
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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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.

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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)				
Statements of Operations:					
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	626,016	278,833	310,278	936,353	962,838
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	587,483	210,297	863,817	809,315	832,859
Operating income (loss)	38,533	68,536	(553,539)	127,038	129,979
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	(727)	57,990	225,370	112,339	84,914
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)

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)
Net income (loss) available to common stockholders	$ 10,836	$ (81,254)	$ (744,308)	$ 5,670	$ (28,875)
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)
Net income (loss) available to common stockholders	$ 1.52	$ (7.06)	$ (56.68)	$ 0.23	$ (1.04)

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	Year Ended December 31,				
	1998	1999	2000	2001	2002
	(dollars in thousands, except per share amounts)				
Diluted earnings (loss) per share:					
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)
Other Financial Data:					
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
Balance Sheet Data:					
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.

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

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 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.

	Owned and Managed	Managed Only	Leased	Incomplete	Total
Facilities as of December 31, 2000	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			
Facilities as of December 31, 2001	36	28	4	2	70
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)
Facilities as of December 31, 2002	37	23	3	1	64

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:

	For the Years Ended December 31,	
	2002	**2001**
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
Total	38.02	37.10
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 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:

	For the Years Ended December 31,	
	2002	**2001**
Owned and Managed Facilities:		
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
Total	40.96	40.19
Operating margin per compensated man-day	$13.65	$13.44
Operating margin	25.0%	25.1%
Average compensated occupancy	83.4%	82.6%
Managed Only Facilities:		
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
Total	33.39	32.31
Operating margin per compensated man-day	$ 7.59	$ 7.23
Operating margin	18.5%	18.3%
Average compensated occupancy	101.4%	99.4%

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 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 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

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 f 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 Stan 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 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 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 Agecroft 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,						
	2003	2004	2005	2006	2007	Thereafter	Total
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 exceed 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 JJFMSI. 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.

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.

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^{SM} 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)
Owned and Managed Facilities:						
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

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	

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	
Managed Only Facilities:						
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	

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	
Leased Facilities:						
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;

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 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 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.

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 lessees 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, 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.

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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 Intermet 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.

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

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 Sodexho 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):

	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
TOTAL	$63,750	$590,763	$654,513

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 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.

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.

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.

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.

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.

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.

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 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.

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 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 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;

(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.

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;

(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.

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

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 Sa 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;

(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

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).

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

(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.

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 Depositary 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.

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 Depositary 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 depositary for the Global Notes and CCA fails to appoint a successor depositary 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 depositary (in accordance with its customary procedures).

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.

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.

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.

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

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.

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;

(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.

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;

(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;

(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);

(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

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

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 1 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.

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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:

Underwriter	Principal Amount of Notes
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
Total	$250,000,000

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 auditi