

WACKENHUT CORRECTIONS CORP

Form 10-K/A

November 10, 2003

**Table of Contents**

**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

**Form 10-K/A-2**

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 29, 2002

Or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission file number: 1-14260

**Wackenhut Corrections Corporation**

*(Exact name of registrant as specified in its charter)*

**Florida**

*(State or other jurisdiction of  
incorporation or organization)*

**65-0043078**

*(I.R.S. Employer  
Identification No.)*

**621 NW 53rd Street, Suite 700  
Boca Raton, Florida**

*(Address of principal executive offices)*

**33487**

*(Zip Code)*

**Registrant's telephone number (including area code):  
(561) 622-5656**

**Securities registered pursuant to Section 12(b) of the Act:**

<b>Title of each class</b>	<b>Name of each exchange on which registered</b>
Common Stock, \$0.01 Par Value	New York Stock Exchange

**Securities registered pursuant to Section 12(g) of the Act:**

<b>Title of each class</b>	<b>Name of each exchange on which registered</b>
None	None

Indicate by a check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been

Edgar Filing: WACKENHUT CORRECTIONS CORP - Form 10-K/A

subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by a check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). Yes  No

At June 30, 2002, the aggregate market value of the 9,236,620 shares of common stock held by non-affiliates of the registrant was \$131,714,201. At October 14, 2003, there were outstanding 9,328,522 shares of common stock.

**DOCUMENTS INCORPORATED BY REFERENCE**

Parts of the Registrant's Proxy Statement for its 2003 Annual Meeting of Shareholders are incorporated by reference in Part III of this report.

**EXHIBIT INDEX IS LOCATED ON PAGE [ ]**

---

---

---

**TABLE OF CONTENTS**

CONSOLIDATED BALANCE SHEETS

CONSOLIDATED STATEMENTS OF CASH FLOWS Fiscal Years Ended December 29, 2002,  
December 30, 2001, and December 31, 2000

10. Income Taxes

11. Earnings Per Share

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

Report of Independent Auditors

Consolidated Balance Sheets

Consolidated Statements of Income

Consolidated Statements of Shareholders' Equity

Consolidated Statements of Cash Flows

Notes to Consolidated Financial Statements

SIGNATURES

SCHEDULE II

EXHIBIT INDEX

Consent of Ernst & Young LLP (West Palm Beach, FL)

Consent of Ernst & Young LLP (London, England)

Certification of CEO - Section 302

Certification of CFO - Section 302

Certification of CEO - Section 906

Certification of CFO - Section 906

---

**Table of Contents**

**EXPLANATORY NOTE**

This Form 10-K/A-2 is being filed for the sole purpose of amending certain text and footnote disclosure in the audited financial statements of Wackenhut Corrections Corporation for the years ended December 29, 2002, December 30, 2001, and December 31, 2000. Item 15 is also amended to include the consents of the independent auditors relating to the above-mentioned financial statements and certifications by the Chief Financial Officer and the Chief Executive Officer.

**Table of Contents****PART II****Item 8. Financial Statements and Supplementary Data****WACKENHUT CORRECTIONS CORPORATION****CONSOLIDATED STATEMENTS OF INCOME**

Fiscal Years Ended December 29, 2002, December 30, 2001, and December 31, 2000

	2002	2001	2000
	(U.S. dollars in thousands, except per share data)		
<b>REVENUES</b>	\$ 568,612	\$ 562,073	\$ 535,557
<b>OPERATING EXPENSES</b>			
(including amounts related to The Wackenhut Corporation (TWC) of \$17,973, \$21,952, and \$13,588)	496,497	503,547	486,884
<b>DEPRECIATION AND AMORTIZATION</b>	12,093	9,919	8,639
<b>GENERAL AND ADMINISTRATIVE EXPENSES</b>			
(including amounts related to TWC of \$3,105, \$3,117, and \$3,783)	32,146	24,423	21,122
<b>OPERATING INCOME</b>	27,876	24,184	18,912
<b>INTEREST INCOME</b>			
(including amounts related to TWC of \$3, \$9, and \$8)	4,794	4,278	6,104
<b>INTEREST EXPENSE</b>			
(including amounts related to TWC of (\$35), (\$58), and \$(73))	(3,737)	(3,597)	(4,801)
<b>OTHER INCOME, NET</b>			641
<b>INCOME BEFORE INCOME TAXES AND EQUITY IN EARNINGS OF</b>			
<b>AFFILIATES</b>	28,933	24,865	20,856
<b>PROVISION FOR INCOME TAXES</b>	12,652	9,706	8,352
<b>INCOME BEFORE EQUITY IN EARNINGS OF AFFILIATES</b>	16,281	15,159	12,504
<b>EQUITY IN EARNINGS OF AFFILIATES,</b>			
(net of income tax provision of \$3,000, \$2,698, and \$2,985)	5,220	4,220	4,490
<b>NET INCOME</b>	\$ 21,501	\$ 19,379	\$ 16,994
<b>EARNINGS PER SHARE</b>			
Basic:	\$ 1.02	\$ 0.92	\$ 0.81
Diluted:	\$ 1.01	\$ 0.91	\$ 0.80
<b>BASIC WEIGHTED AVERAGE SHARES OUTSTANDING</b>	21,148	21,028	21,110
<b>DILUTED WEIGHTED AVERAGE SHARES OUTSTANDING</b>	21,364	21,261	21,251

Edgar Filing: WACKENHUT CORRECTIONS CORP - Form 10-K/A

The accompanying notes to consolidated financial statements are an integral part of these statements.

Table of Contents

## WACKENHUT CORRECTIONS CORPORATION

## CONSOLIDATED BALANCE SHEETS

December 29, 2002 and December 30, 2001

	2002	2001
	(U.S. dollars in thousands, except per share data)	
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 35,240	\$ 46,099
Accounts receivable, less allowance for doubtful accounts of \$1,644 and \$2,557	84,737	79,002
Deferred income tax asset	7,161	6,041
Other	12,445	8,990
	<u>139,583</u>	<u>140,132</u>
<b>PROPERTY AND EQUIPMENT, NET</b>	206,466	53,758
<b>INVESTMENTS IN AND ADVANCES TO AFFILIATES</b>	19,776	15,328
<b>DEFERRED INCOME TAX ASSET</b>	119	716
<b>DIRECT FINANCE LEASE RECEIVABLE</b>	30,866	25,319
<b>OTHER NON CURRENT ASSETS</b>	5,848	6,770
	<u>\$402,658</u>	<u>\$242,023</u>
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 10,138	\$ 14,079
Accrued payroll and related taxes	17,489	13,318
Accrued expenses	43,046	41,573
Current portion of deferred revenue and non-recourse debt	3,071	3,275
Current portion of long-term debt	1,250	
	<u>74,994</u>	<u>72,245</u>
<b>DEFERRED REVENUE</b>	7,348	9,817
<b>OTHER</b>	13,058	4,281
<b>LONG-TERM DEBT</b>	123,750	
<b>NON-RECOURSE DEBT</b>	30,866	25,319
<b>COMMITMENTS AND CONTINGENCIES</b>		
<b>SHAREHOLDERS EQUITY</b>		
Preferred stock, \$.01 par value, 10,000,000 shares authorized		
Common stock, \$.01 par value, 30,000,000 shares authorized, 21,245,620 and 20,977,224 shares issued and outstanding	212	210
Additional paid-in capital	63,500	61,157
Retained earnings	111,337	89,836
Accumulated other comprehensive loss	(22,407)	(20,842)
	<u>152,642</u>	<u>130,361</u>
<b>Total shareholders equity</b>	<u>152,642</u>	<u>130,361</u>



Edgar Filing: WACKENHUT CORRECTIONS CORP - Form 10-K/A

<u>          </u> \$402,658 <u>          </u>	<u>          </u> \$242,023 <u>          </u>
---	---

The accompanying notes to consolidated financial statements are an integral part of these balance sheets.

Table of Contents

## WACKENHUT CORRECTIONS CORPORATION

## CONSOLIDATED STATEMENTS OF CASH FLOWS

Fiscal Years Ended December 29, 2002, December 30, 2001, and December 31, 2000

	2002	2001	2000
(U.S. dollars in thousands)			
<b>CASH FLOW FROM OPERATING ACTIVITIES:</b>			
Net income	\$ 21,501	\$ 19,379	\$ 16,994
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation and amortization expense	12,093	9,919	8,639
Deferred tax benefit	(711)	(670)	(1,952)
Provision for doubtful accounts	2,368	3,636	1,755
Gain on sale of loans receivable			(641)
Equity in earnings of affiliates, net of tax	(5,220)	(4,220)	(4,490)
Tax benefit related to employee stock options	1,081	315	
Changes in assets and liabilities			
(Increase) decrease in assets			
Accounts receivable	(6,851)	(3,219)	(6,227)
Other current assets	(9,048)	1,383	204
Other assets	475	(414)	(3,325)
Increase (decrease) in liabilities			
Accounts payable and accrued expenses	(3,485)	1,525	15,669
Accrued payroll and related taxes	3,936	756	1,768
Deferred revenue	(2,673)	(3,192)	(2,488)
Other liabilities	8,777	4,281	
Net cash provided by operating activities	<u>22,243</u>	<u>29,479</u>	<u>25,906</u>
<b>CASH FLOW FROM INVESTING ACTIVITIES:</b>			
Investments in and advances to affiliates	(171)	(130)	(4,515)
Repayments of investments in and advances to affiliates	1,617	4,559	246
Proceeds from the sale of loans receivable			2,461
Capital expenditures	(160,698)	(8,326)	(19,138)
Net cash used in investing activities	<u>(159,252)</u>	<u>(3,897)</u>	<u>(20,946)</u>
<b>CASH FLOW FROM FINANCING ACTIVITIES:</b>			
Proceeds from long-term debt and non-recourse debt	127,981		9,000
Payments on long-term debt		(10,000)	(14,000)
Proceeds from the exercise of stock options	1,264	397	12
Repurchase of common stock		(1,547)	(4,933)
Net cash provided by (used in) financing activities	<u>129,245</u>	<u>(11,150)</u>	<u>(9,921)</u>
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS</b>			
	(3,095)	(2,154)	(2,247)
<b>NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>			
	(10,859)	12,278	(7,208)
<b>CASH AND CASH EQUIVALENTS, beginning of period</b>	<u>46,099</u>	<u>33,821</u>	<u>41,029</u>

Edgar Filing: WACKENHUT CORRECTIONS CORP - Form 10-K/A

<i>CASH AND CASH EQUIVALENTS, end of period</i>	\$ 35,240	\$ 46,099	\$ 33,821
	<u>          </u>	<u>          </u>	<u>          </u>
<b>SUPPLEMENTAL DISCLOSURES:</b>			
<i>Cash paid during the year for:</i>			
Income taxes	\$ 5,589	\$ 5,339	\$ 6,140
	<u>          </u>	<u>          </u>	<u>          </u>
Interest	\$ 525	\$ 479	\$ 631
	<u>          </u>	<u>          </u>	<u>          </u>

The accompanying notes to consolidated financial statements are an integral part of these statements.

**Table of Contents****WACKENHUT CORRECTIONS CORPORATION****CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY****AND COMPREHENSIVE INCOME**

Fiscal Years Ended December 29, 2002, December 30, 2001, and December 31, 2000

	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Shareholders Equity
	Number of Shares	Amount				
(U.S. dollars in thousands)						
<b>BALANCE, JANUARY 2, 2000</b>	21,509	\$ 215	\$ 66,908	\$ 53,463	\$ (1,902)	\$ 118,684
Proceeds from stock options exercised	4		12			12
Common stock repurchased and retired	(500)	(5)	(4,928)			(4,933)
Comprehensive income:						
Net income				16,994		
Change in foreign currency translation, net of income tax benefit of \$2,395.					(3,593)	
Total comprehensive income						13,401
<b>BALANCE, DECEMBER 31, 2000</b>	21,013	210	61,992	70,457	(5,495)	127,164
Proceeds from stock options exercised	86	1	396			397
Tax benefit related to employee stock options			315			315
Common stock repurchased and retired	(122)	(1)	(1,546)			(1,547)
Comprehensive income:						
Net income				19,379		
Change in foreign currency translation, net of income tax benefit of \$1,777.					(2,780)	
Cumulative effect of change in accounting principle related to affiliate s derivative instruments					(12,093)	
Unrealized loss on derivative instruments					(474)	
Total comprehensive income						4,032
<b>BALANCE, DECEMBER 30, 2001</b>	20,977	210	61,157	89,836	(20,842)	130,361
Proceeds from stock options exercised	269	2	1,262			1,264
Tax benefit related to employee stock options			1,081			1,081
Comprehensive income:						
Net income				21,501		
Change in foreign currency translation, net of income tax expense of \$1,426.					2,230	
Minimum pension liability adjustment, net of income tax benefit of \$323.					(505)	
Unrealized loss on derivative instruments, net of income tax benefit of \$1,688.					(3,290)	
Total comprehensive income						19,936

Edgar Filing: WACKENHUT CORRECTIONS CORP - Form 10-K/A

<b>BALANCE, DECEMBER 29, 2002</b>	21,246	\$ 212	\$ 63,500	\$ 111,337	\$(22,407)	\$ 152,642
-----------------------------------	--------	--------	-----------	------------	------------	------------

The accompanying notes to consolidated financial statements are an integral part of these statements.

**Table of Contents**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

For the Fiscal Years Ended December 29, 2002, December 30, 2001, and December 31, 2000

**1. General**

Wackenhut Corrections Corporation, a Florida corporation, and subsidiaries (the Company) is a leading developer and manager of privatized correctional, detention and public sector mental health services facilities located in the United States, the United Kingdom, Australia, South Africa, and New Zealand. The Company is a majority owned subsidiary of The Wackenhut Corporation (TWC), which owns 12 million shares of the Company's stock.

On May 8, 2002, TWC consummated a merger (the Merger) with a wholly owned subsidiary of Group 4 Falck A/S (Group 4 Falck), a Danish multinational security and correctional services company. As a result of the Merger, Group 4 Falck acquired TWC and has become the indirect beneficial owner of 12 million shares of the Company. The Company's common stock continues to trade on the New York Stock Exchange.

**2. Summary of Significant Accounting Policies**

*Fiscal Year*

The Company's fiscal year ends on the Sunday closest to the calendar year end. Fiscal 2002, 2001 and 2000 each included 52 weeks.

*Basis of Financial Statement Presentation*

The consolidated financial statements include the accounts of the Company and its subsidiaries. Investments in 20 percent to 50 percent owned affiliates are accounted for under the equity method. All significant intercompany transactions and balances between the Company and its subsidiaries have been eliminated in consolidation. Certain reclassifications of the prior year's financial statements have been made to conform to the current year's presentation.

*Use of Estimates*

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The Company's significant estimates include allowance for doubtful accounts, construction cost estimates, employee deferred compensation accruals, reserves for insurance and legal, the reserve related to the Jena Facility and certain reserves required under its operating contracts. While the Company believes that such estimates are fair when considered in conjunction with the consolidated financial statements taken as a whole, the actual amounts of such estimates, when known, will vary from these estimates.

*Fair Value of Financial Instruments*

The carrying value of cash and cash equivalents, accounts receivable, accounts payable and accrued expenses approximate their fair value due to the short maturity of these items. The carrying value of the Company's long-term debt and non-recourse debt approximates fair value based on the variable interest rates on the debt.

*Cash and Cash Equivalents*

The Company classifies as cash equivalents all interest-bearing deposits or investments with original maturities of three months or less.

**Table of Contents**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

***Inventories***

Food and supplies inventories are carried at the lower of cost or market, on a first-in first-out basis and are included in other current assets in the accompanying consolidated balance sheets. Uniform inventories are carried at amortized cost and are amortized over a period of eighteen months. The current portion of unamortized uniforms is included in other current assets. The long-term portion is included in other assets in the accompanying consolidated balance sheets.

***Property and Equipment***

Property and equipment are stated at cost, less accumulated depreciation. Maintenance and repairs are expensed as incurred. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets. Accelerated methods of depreciation are generally used for income tax purposes. Leasehold improvements are amortized on a straight-line basis over the shorter of the useful life of the improvement or the term of the lease. Interest is capitalized in connection with the construction of correctional and detention facilities. Capitalized interest is recorded as part of the asset to which it relates and is amortized over the asset's estimated useful life. No interest cost was capitalized in 2002 or 2001.

***Impairment of Long-lived Assets***

The Company reviews for impairment of long-lived assets to be held and used whenever events or changes in circumstances indicate that the carrying amount of such assets may not be fully recoverable. Determination of recoverability is based on an estimate of undiscounted future cash flows resulting from the use of the asset and its eventual disposition. Measurement of an impairment loss for long-lived assets that management expects to hold and use is based on the fair value of the asset. Long-lived assets to be disposed of are reported at the lower of carrying amount or fair value less costs to sell. Management has reviewed the Company's long-lived assets and determined that there are no events requiring impairment loss recognition. Events that would trigger an impairment assessment include deterioration of profits for a business segment that has long-lived assets, or when other changes occur which might impair recovery of long-lived assets.

***Goodwill and Other Intangible Assets***

Effective December 31, 2001, the Company adopted Statement of Financial Accounting Standards ( SFAS ) No. 142, Goodwill and Other Intangible Assets. As a result of adopting SFAS No. 142, the Company's goodwill is no longer amortized, but are subject to an annual impairment test. In accordance with SFAS No. 142, the Company ceased amortizing goodwill as of the beginning of 2002. The Company's goodwill at December 29, 2002 was associated with its Australian subsidiary in the amount of \$0.4 million and in its UK affiliate in the amount of \$1.1 million. SFAS 142 requires that transitional impairment tests be performed at its adoption, and provides that resulting impairment losses for goodwill and other intangible assets with indefinite useful lives be reported as the effect of a change in accounting principle. There was no impairment of goodwill or other intangible assets as a result of adopting SFAS No. 142 or the annual impairment test completed during the fourth quarter of 2002. Excluding goodwill, the Company has no intangible assets deemed to have indefinite lives.

**Table of Contents****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The following table provides a reconciliation of reported net income for the year ended December 30, 2001 and December 31, 2000 to net income adjusted as if SFAS No. 142 had been applied as of the beginning of 2000:

	Year Ended December 30, 2001	Year Ended December 31, 2000
	(in thousands, except per share amounts)	
Net income as reported	\$ 19,379	\$ 16,994
Goodwill amortization, net of taxes	569	151
Equity method goodwill amortization, net of taxes	746	690
Adjusted net income	\$ 20,694	\$ 17,835
<b>BASIC EARNINGS PER SHARE:</b>		
Net income as reported	\$ 0.92	\$ 0.81
Goodwill amortization, net of taxes	0.03	0.01
Equity method goodwill amortization, net of taxes	0.04	0.03
Adjusted net income	\$ 0.98	\$ 0.84
<b>DILUTED EARNINGS PER SHARE:</b>		
Net income as reported	\$ 0.91	\$ 0.80
Goodwill amortization, net of taxes	0.03	0.01
Equity method goodwill amortization, net of taxes	0.04	0.03
Adjusted net income	\$ 0.97	\$ 0.84

Goodwill represents the cost of acquired enterprises in excess of the fair value of the net tangible and identifiable intangible assets acquired. Prior to the adoption of SFAS 142 the Company amortized goodwill on a straight-line basis over periods of 5 to 10 years. Accumulated amortization totaled approximately \$2.6 million and \$1.8 million at December 30, 2001 and December 31, 2000, respectively. Amortization expense was \$0.9 million in 2001 and includes the write-off of approximately \$0.6 million of goodwill associated with the Company's mental health services. Amortization expense was \$0.3 million in 2000.

**Deferred Revenue**

Deferred revenue primarily represents the unamortized net gain on the development of properties and on the sale and leaseback of properties by the Company to Correctional Properties Trust ( CPV ), a Maryland real estate investment trust. The Company leases these properties back from CPV under operating leases. Deferred revenue is being amortized over the lives of the leases and is recognized in income as a reduction of rental expenses.

**Revenue Recognition**

In accordance with SEC Staff Accounting Bulletin No. 101 and related interpretations, facility management revenues are recognized as services are provided under facility management contracts with approved government appropriations based on a net rate per day per inmate or on a fixed monthly rate. The Company performs ongoing credit evaluations of its customers' financial condition and generally does not require collateral. The Company maintains reserves for potential credit losses, and such losses traditionally have been within management's expectations.

Project development and design revenues are recognized as earned on a percentage of completion basis measured by the percentage of costs incurred to date as compared to estimated total cost for each contract. This method is used because management considers costs incurred to date to be the best available measure of progress on these contracts. Provisions for estimated losses on uncompleted contracts



**Table of Contents**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

and changes to cost estimates are made in the period in which the Company determines that such losses and changes are probable. Contract costs include all direct material and labor costs and those indirect costs related to contract performance. Changes in job performance, job conditions, and estimated profitability, including those arising from contract penalty provisions, and final contract settlements may result in revisions to estimated costs and income, and are recognized in the period in which the revisions are determined.

***Operating Expenses***

Operating expenses consist primarily of compensation and other personnel related costs, facility lease and operational costs, inmate related expenses, and medical expenses and are recognized as incurred.

***Income Taxes***

The Company accounts for income taxes in accordance with Statement of Financial Accounting Standards No. 109, Accounting for Income Taxes. Under this method, deferred income taxes are determined based on the estimated future tax effects of differences between the financial statement and tax bases of assets and liabilities given the provisions of enacted tax laws. Deferred income tax provisions and benefits are based on changes to the assets or liabilities from year to year. Valuation allowances are recorded related to deferred tax assets if their realization does not meet the not more likely than not criteria.

***Earnings Per Share***

Basic earnings per share is computed by dividing net income by the weighted-average number of common shares outstanding. In the computation of diluted earnings per share, the weighted-average number of common shares outstanding is adjusted for the dilutive effect of shares issuable upon exercise of stock options calculated using the treasury stock method.

***Direct Finance Leases***

The Company accounts for the portion of its contracts with certain governmental agencies that represent capitalized lease payments on buildings and equipment as investments in direct finance leases. Accordingly, the minimum lease payments to be received over the term of the leases less unearned income are capitalized as the Company's investments in the leases. Unearned income is recognized as income over the term of the leases using the interest method.

***Reserves for Insurance Losses***

Casualty insurance related to workers' compensation, general liability and automobile insurance coverage is provided through an independent insurer. Prior to October 2, 2002, the first \$1 million of coverage was reinsured by an insurance subsidiary of TWC. The Company recognized and paid insurance premiums expense related to this program with TWC of \$17.8 million, \$22.0 million and \$13.6 million, respectively, for each of the fiscal years ended December 29, 2002, December 30, 2001 and December 31, 2000. Effective October 2, 2002, the Company established a new insurance program with a \$1 million deductible per occurrence with an independent insurer. The insurance program consists of primary and excess insurance coverage. The primary general liability coverage has a \$5 million limit per occurrence with a \$20 million general aggregate limit and a \$1 million deductible. The primary automobile coverage has a \$5 million limit per occurrence with a \$1 million deductible and the primary worker's compensation limits are based on state statutes and contain a \$1 million deductible. The excess coverage has a \$50 million limit per occurrence and in the aggregate. The Company believes such limits are adequate to insure against the various liability risks of its business.

**Table of Contents**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Because the new policy is a high deductible policy, losses are recorded as reported and provision is made to cover losses incurred but not reported. Loss reserves are undiscounted and are computed based on actuarial estimates. Prior to the establishment of the new high deductible policy, the Company had not recognized any expense related to self-insurance. The Company recognized approximately \$3.0 million of self-insurance expense for estimated losses related to the high deductible policy during the fourth quarter of fiscal 2002 as a result of establishing the high deductible policy on October 2, 2002.

The Company is self-insured for employment claims and medical malpractice. There can be no assurance that the Company will be able to obtain or maintain insurance levels as required by its contracts. The Company recognized approximately \$1.4 million, \$0.3 million and \$0.4 million, respectively, of self-insurance expense related to employment claims and medical malpractice claims for each of the fiscal years ended December 29, 2002, December 30, 2001 and December 31, 2000.

***Debt Issuance Costs***

Debt issuance costs totaling \$2.8 million at December 29, 2002, are included in other non current assets in the consolidated balance sheets and are amortized into interest expense on a straight-line basis, which is not materially different than the interest method, over the term of the related debt.

***Comprehensive Income***

SFAS No. 130, Reporting Comprehensive Income requires companies to report all changes in equity in a financial statement for the period in which they are recognized, except those resulting from investment by owners and distributions to owners. The Company has disclosed Comprehensive Income, which encompasses net income, foreign currency translation adjustments, unrealized loss on derivative instruments and the minimum pension liability adjustment in the Consolidated Statements of Shareholders' Equity and Comprehensive Income.

***Concentration of Credit Risk***

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash and cash equivalents, trade accounts receivable, direct finance lease receivable, long-term debt and financial instruments used in hedging activities. The Company's cash management and investment policies restrict investments to low-risk, highly liquid securities, and the Company performs periodic evaluations of the credit standing of the financial institutions with which it deals. As of December 29, 2002, and December 30, 2001, management believes the Company had no significant concentrations of credit risk except as disclosed in Note 9.

***Foreign Currency Translation***

The Company's foreign operations use their local currencies as their functional currencies. Assets and liabilities of the operations are translated at the exchange rates in effect on the balance sheet date and shareholders' equity is translated at historical rates. Income statement items are translated at the average exchange rates for the year. The impact of currency fluctuation is included in shareholders' equity as a component of accumulated other comprehensive income.

***Interest Rate Swaps***

In accordance with Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities, and its related interpretations and amendments, the Company records derivatives as either assets or liabilities on the balance sheet and measures those instruments at fair value. For derivatives that are designed as and qualify as effective cash flow hedges, the portion of gain or loss on the derivative instrument effective at offsetting changes in the hedged item is reported as a component of accumulated other comprehensive income and reclassified into earnings when the hedged transaction affects earnings.

The Company formally documents all relationships between hedging instruments and hedge items, as well as its risk-management objective and strategy for undertaking various hedge transactions. This process includes attributing all derivatives that are designated as cash flow hedges to floating rate liabilities. The Company also assesses whether each derivative is highly effective in offsetting changes in the cash flows of the hedged item. Fluctuations in the value of the derivative instruments are generally offset by changes in the hedged item; however, if it is determined that a derivative is not highly effective as a hedge or if a



**Table of Contents**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

derivative ceases to be a highly effective hedge, the Company will discontinue hedge accounting prospectively for the affected derivative.

The Company's 50% owned equity affiliate operating in the United Kingdom has entered into interest rate swaps to fix the interest rate on its variable rate credit facility to rates ranging from 6.2% to 8.7%. Management of the Company has determined the swaps to be effective cash flow hedges. Accordingly, the Company records its share of the affiliate's change in other comprehensive income as a result of applying SFAS No. 133. The adoption of SFAS No. 133 on January 1, 2001 resulted in a \$12.1 million reduction of shareholders' equity. The fair value of the swaps was a liability to the Company of approximately \$11.9 million, net of taxes of approximately \$6.7 million, and is reflected as a reduction in Investments in and Advances to Affiliates in the accompanying consolidated balance sheet at December 29, 2002.

In connection with the financing and management of one Australian facility, the Company's wholly-owned Australian subsidiary financed the facility's development with long-term debt obligations, which are non-recourse to the Company. In connection with the non-recourse debt, the subsidiary is a party to an interest rate swap agreement to fix the interest rate on the variable rate non-recourse debt. Management of the Company has determined the swap to be an effective cash flow hedge. Accordingly, the Company has recorded the value of the interest rate swap in other comprehensive income, net of applicable income taxes. The total value of the swap liability as of December 29, 2002 was approximately \$6 million and is recorded as a component of other liabilities in the accompanying consolidated financial statements.

***Accounting for Stock-Based Compensation***

Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation, defines a fair value method of accounting for issuance of stock options and other equity instruments. Under the fair value method, compensation cost is measured at the grant date based on the fair value of the award and is recognized over the service period, which is usually the vesting period. Pursuant to SFAS No. 123, companies are not required to adopt the fair value method of accounting for employee stock-based transactions. Companies are permitted to account for such transactions under Accounting Principles Board Opinion No. 25 (APB Opinion No. 25), Accounting for Stock Issued to Employees, but are required to disclose in a note to the financial statements pro forma net income and per share amounts as if the Company had applied the methods prescribed by SFAS No. 123.

The Company applies APB Opinion No. 25 and related interpretations in accounting for its stock options granted to employees and non-employee directors and has complied with the disclosure requirements of SFAS No. 123. Except for non-employee directors, the Company has not granted any options to non-employees. See Note 13 for more information regarding the Company's stock option plans.

***Recent Accounting Pronouncements***

In August 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. SFAS No. 144 is effective for fiscal years beginning after December 15, 2001. For long-lived assets to be held and used, SFAS No. 144 retains the existing requirements to (a) recognize an impairment loss only if the carrying amount of a long-lived asset is not recoverable from its discounted cash flows and (b) measure an impairment loss as the difference between the carrying amount and the fair value of the asset. SFAS No. 144 establishes one accounting model to be used for long-lived assets to be disposed of by sale and revises guidance for assets to be disposed of other than by sale. The adoption of SFAS No. 144 did not have an impact on the Company's financial position, results of operations or cash flows.

In October 2001, the FASB issued SFAS No. 143, Accounting for Asset Retirement Obligations. This standard requires companies to record the fair value of a liability for an asset retirement obligation in the period in which it is incurred. When the liability is initially recorded, the Company capitalizes a cost by increasing the carrying amount of the related long-lived asset. Over time, the liability is accreted to its

**Table of Contents**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

present value each period, and the capitalized cost is depreciated over the useful life of the related asset. Upon settlement of the liability, the Company either settles the obligation for its recorded amount or incurs a gain or loss upon settlement. The standard is effective for fiscal years beginning after June 15, 2002, with earlier application encouraged. Management expects that the adoption of SFAS No. 143 will not have a material impact on the Company's financial position, results of operations or cash flows in the year of adoption.

In April 2002, the FASB issued SFAS No. 145, Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections. SFAS No. 145, among other things, requires gains and losses on extinguishment of debt to be classified as part of continuing operations rather than treated as extraordinary, as previously required in accordance with SFAS No. 4. SFAS No. 145 also modifies accounting for subleases where the original lessee remains the secondary obligor and requires certain modifications to capital leases to be treated as a sale-leaseback transaction. The Company plans to adopt SFAS No. 145 at the beginning of fiscal 2003 and expects no material impact on its financial position, results of operations or cash flows.

In July 2002, the FASB issued SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities. SFAS No. 146 nullifies the guidance previously provided under 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). Among other things, SFAS No. 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred as opposed to when there is commitment to a restructuring plan as set forth under the nullified guidance. The Company has early adopted SFAS No. 146 and there was no material impact on its financial position, results of operations or cash flows as a result of adoption.

In November 2002, the FASB issued FASB Interpretation No. 45, Guarantors Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others, an Interpretation of FASB Statements No. 5, 57, and 107 and rescission of FASB Interpretation No. 34 (FIN 45). FIN 45 elaborates on the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under certain guarantees that it has issued. It also clarifies that a guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. The initial recognition and initial measurement provisions shall be applied only on a prospective basis to guarantees issued or modified after December 31, 2002. The guarantor's previous accounting for guarantees issued prior to the date of FIN 45's initial application shall not be revised or restated to reflect the effect of the recognition and measurement provisions of FIN 45. The disclosure requirements are effective for financial statements of interim or annual periods ending after December 15, 2002. The Company implemented the disclosure requirements of FIN 45 as of December 29, 2002 and there was no material impact on its financial position, results of operations or cash flows as a result of this implementation.

In December 2002, the FASB issued SFAS No. 148, Accounting for Stock-Based Compensation Transition and Disclosure, an Amendment of FASB Statement No. 123. SFAS No. 148 amends FASB Statement No. 123, Accounting for Stock-Based Compensation, to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, SFAS No. 148 amends the disclosure requirements of Statement 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. Currently, the Company accounts for stock option plans under APB Opinion No. 25, under which no compensation has been recognized. SFAS 148 is effective for fiscal years beginning after December 15, 2002. The Company does not intend to change its policy with regard to stock based compensation and expects no impact on the Company's financial position, results of operations or cash flows upon adoption.

**Table of Contents****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

In January 2003, the FASB issued FIN No. 46, Consolidation of Variable Interest Entities, which addresses consolidation by a business of variable interest entities in which it is the primary beneficiary. FIN No. 46 is effective immediately for certain disclosure requirements and variable interest entities created after January 1, 2003, and in the first fiscal year or interim period beginning after June 15, 2003 for all other variable interest entities. The Company is currently in the process of determining the effects, if any, on its financial position, results of operations and cash flows that will result from the adoption of FIN No. 46.

**3. Property and Equipment**

Property and equipment consist of the following at fiscal year end:

	Useful Life	2002	2001
	(Years)	(In thousands)	
Land		\$ 3,258	\$ 2,115
Buildings and improvements	2 to 40	203,639	52,913
Equipment	3 to 7	21,607	15,502
Furniture and fixtures	3 to 7	4,584	2,601
		<u>\$ 233,088</u>	<u>\$ 73,131</u>
Less-accumulated depreciation and amortization		(26,622)	(19,373)
		<u>\$ 206,466</u>	<u>\$ 53,758</u>

Capitalized interest is recorded as part of the asset to which it relates and is amortized over the asset's estimated useful life. No interest was capitalized in 2002 and 2001.

In December 2002, the Company acquired four correctional properties that were formerly included in the Company's operating lease facility for an aggregate purchase price of approximately \$155 million.

**4. Long-Term Debt**

Prior to December 12, 2002, the Company was a party to a \$30 million multi-currency revolving credit facility, which included \$5.0 million for the issuance of letters of credit and a \$154.3 million operating lease facility established to acquire and develop new correctional institutions used in its business. No amounts were outstanding under the revolving credit facility and \$154.3 million was outstanding under the operating lease facility. The term of the operating lease facility was set to expire December 18, 2002 upon which the Company had the ability to purchase the properties in the facility for their original acquisition cost.

On December 12, 2002, the Company entered into a new \$175 million Senior Secured Credit Facility (the Senior Credit Facility) consisting of a \$50 million, 5-year revolving loan (the Revolving Credit Facility) and a \$125 million, 6-year term loan (the Term Loan Facility). Borrowings under the Term Loan Facility and corporate cash were used to purchase four correctional facilities in operation under the Company's \$154.3 million operating lease facility. The purchase price totaled approximately \$155 million, which included related fees and expenses. Simultaneous with the closing of the Senior Credit Facility, the Company terminated its \$154.3 million operating lease facility and \$30 million multi-currency revolving credit facility, both of which would have expired on December 18, 2002.

The Revolving Credit Facility contains a \$30 million limit for the issuance of standby letters of credit. At December 29, 2002, \$125 million was outstanding under the Term Loan Facility, there were no borrowings under the Revolving Credit Facility, and there were \$7.2 million of outstanding letters of credit. At December 29, 2002, \$42.8 million of the Revolving Credit Facility was available to the Company for



**Table of Contents**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

working capital, acquisitions, general corporate purposes, and for restricted payments as defined in the Senior Credit Facility.

The Senior Credit Facility permits the Company to make certain restricted payments such as the repurchase of Company common stock. At December 29, 2002, the Company had \$15 million available for restricted payments. The amount of permitted restricted payments may increase upon the Company's generation of excess cash flow and under certain permitted asset sales.

Indebtedness under the Revolving Credit Facility bears interest at the Company's option at the base rate (defined as the higher of the prime rate or federal funds plus 0.5%) plus a spread of 125 to 200 basis points or LIBOR plus 250 to 325 basis points, depending on the leverage ratio. Indebtedness under the Term Loan Facility bears interest at LIBOR + 400 basis points, with a minimum LIBOR rate of 2.0% during the first 18-months. As LIBOR was below 2.0% at December 29, 2002, the effective rate on the Company's term loan borrowings was 6.0%.

Obligations under the Senior Credit Facility are guaranteed by the Company's material domestic subsidiaries and are secured by substantially all of the Company's tangible and intangible assets.

The Senior Credit Facility includes covenants that require the Company, among other things, to maintain a maximum leverage ratio, a minimum fixed charge coverage ratio, a minimum net worth, and to limit that amount of annual capital expenditures. The facility also limits certain payments and distributions to the Company as well as the Company's ability to enter into certain types of transactions. The Company was in compliance with the covenants of the Senior Credit Facility as of December 29, 2002.

The Senior Credit Facility has been rated Ba3/ BB by Moody's Investors Service, Inc. (Moody's) and Standard and Poor's Ratings Group, a division of the McGraw-Hill Companies (S&P), respectively. In addition, the Company obtained issuer ratings of B1/ BB- from Moody's and S&P, respectively.

The debt amortization schedule requires annual repayments of \$1.25 million for fiscal years 2003 through 2007 and \$118.25 million thereafter.

At December 29, 2002 the Company also had outstanding fourteen letters of guarantee totaling approximately \$13 million under separate international facilities.

The Company's wholly-owned Australian subsidiary financed the facility's development with long-term debt obligations, which are non-recourse to the Company. The term of the non-recourse debt is through 2017 and it bears interest at a variable rate quoted by certain Australian banks plus 140 basis points. Any obligations or liabilities of the subsidiary are matched by a similar or corresponding commitment from the government of the State of Victoria. In connection with the non-recourse debt, the subsidiary is a party to an interest rate swap agreement to fix the interest rate on the variable rate non-recourse debt to 9.7%. See Note 2. The debt amortization schedule requires annual repayments of \$0.5 million in 2003, \$1.1 million in 2004, \$1.2 million in 2005, \$1.3 million in 2006, \$1.5 million in 2007 and \$25.8 million thereafter.

**5. Investment in Direct Finance Leases**

The Company's investment in direct finance leases relates to the financing and management of one Australian facility. The Company's wholly-owned Australian subsidiary financed the facility's development with long-term debt obligations, which are non-recourse to the Company. The Company has consolidated the subsidiary's direct finance lease receivable from the state government and related non-recourse debt each totaling approximately \$31 million as of December 29, 2002. The Company has reclassified the amounts reflected in the December 30, 2001 balance sheet to reflect the asset and related non-recourse debt of approximately \$26 million to conform to current year presentation.



**Table of Contents****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The future minimum rentals to be received are as follows (in thousands):

Fiscal Year	Annual Repayment
	(In thousands)
2003	\$ 520
2004	1,058
2005	1,197
2006	1,333
2007	1,492
Thereafter	25,786
	<u>\$31,386</u>
Current portion of direct finance lease receivable	(520)
Non current portion of direct finance lease receivable	<u>\$30,866</u>

**6. Transactions with Correctional Properties Trust ( CPV )**

On April 28, 1998, CPV acquired eight correctional and detention facilities operated by the Company. The Company and CPV previously had three common members on their respective boards of directors. Effective September 9, 2002, the Companies no longer had common members serving on their respective boards of directors. CPV also was granted the fifteen-year right to acquire and lease back future correctional and detention facilities developed or acquired by the Company. During fiscal 1998 and 1999, CPV acquired two additional facilities for \$94.1 million. In fiscal 2000, CPV purchased an eleventh facility that the Company had the right to acquire for \$15.3 million. The Company recognized no net proceeds from the sale. There were no purchase and sale transactions between the Company and CPV in 2001 or 2002.

Simultaneous with the purchases, the Company entered into ten-year operating leases of these facilities from CPV. As the lease agreements are subject to contractual lease increases, the Company records operating lease expense for these leases on a straight-line basis over the term of the leases.

The deferred unamortized net gain related to sales of the facilities to CPV at December 29, 2002, which is included in Deferred Revenue in the accompanying consolidated balance sheets, is \$9.9 million with \$2.6 million short-term and \$7.3 million long-term. The gain is being amortized over the ten-year lease terms. The Company recorded net rental expense related to the CPV leases of \$19.6 million, \$19.1 million and 19.7 million in 2002, 2001 and 2000, respectively, excluding the Jena rental expense (See Note 7).

The future minimum lease commitments under the leases for these eleven facilities are as follows:

Fiscal Year	Annual Rental
	(In thousands)
2003	\$ 23,451
2004	23,527
2005	23,606
2006	23,688
2007	23,773
Thereafter	<u>18,287</u>

\$ 136,332

**Table of Contents**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**7. Commitments and Contingencies**

*Facilities*

The Company has been notified by the Texas Youth Commission of a declining need for beds in the Coke County Texas Facility. The Company has an operating and management contract that is due to expire March 31, 2003 upon the termination of the contract by the Texas Youth Commission. An unrelated third party owns the facility. The Company believes that it has no continuing obligation with respect to the facility in the event the Company's operating contract is terminated or expires. There can be no assurance that the contract will be extended. Termination of the contract would not have a material adverse impact on the Company's financial results or cash flows.

The Company leases the 300-bed Broward County Work Release Center in Broward County, Florida (the Broward Facility), from CPV under the terms of a non-cancelable lease, which expires on April 28, 2008. The Company operates the Broward Facility for the Broward County Board of County Commissioners and the Broward County Sheriff's Department under the terms of a correctional services contract that was renewed effective February 17, 2003 for an additional eight-month term. The Broward County Sheriff's Department previously advised the Company of the County's declining need for the usage of the Broward Facility, and accordingly, the renewed contract reduced the number of beds in the facility reserved for use by the County. Therefore, the Company initiated discussions with the Immigration and Naturalization Service (the INS), which has expressed an interest in utilizing some or all of the Broward Facility, depending on availability and INS need. The INS executed a correctional services management contract with the Company for 72 beds in the Broward Facility, effective from August 1, 2002 through September 30, 2003. Effective January 2003, the INS increased the scope of the contract to house up to 150 detainees. The Company's remaining obligation under the lease with CPV is approximately \$8.5 million.

During 2000, the Company's management contract at the 276-bed Jena Juvenile Justice Center in Jena, Louisiana (the Facility) was terminated. The Company has incurred operating charges of \$3 million and \$3.8 million during fiscal 2001 and 2000, respectively, related to the Company's lease of the inactive Facility that represented the expected costs to be incurred under the lease until a sublease or alternative use could be initiated. In May 2002, the State of Louisiana and CPV entered into a tentative purchase and sale agreement for the Facility, subject to certain contingencies. Additionally, the Company entered into a lease termination agreement subject to the sale of the Facility that resulted in an additional operating charge of approximately \$1.1 million during 2002. The State of Louisiana did not exercise its option to purchase the Facility and the agreements expired during October 2002. The Company is actively pursuing various sublease alternatives with several agencies of the federal and state government. The Company is continuing its efforts to find an alternative correctional use or sublease for the Facility and believes that it will be successful prior to early 2004. The Company has reserved for the lease payments through early 2004 and management believes the reserve balance currently established for anticipated future losses under the lease with CPV is sufficient to cover costs under the lease until a sublease is in place or an alternative future use is established. If the Company is unable to sublease or find an alternative correctional use for the Facility by that time, an additional operating charge will be required. The remaining obligation, exclusive of the reserve for losses through early 2004, on the Jena lease through the contractual term of 2009 is approximately \$11 million.

The Company, through Premier Custodial Group Limited (PCG), a 50 percent owned joint venture in the United Kingdom, operates the 400-bed Youthful Offender Institution at Ashfield (the Ashfield Facility). On May 23, 2002, the UK Prison Service assumed operational control of the Ashfield Facility based upon the Prison Service's concern over safety and control. Control of the Ashfield Facility was restored to PCG on October 14, 2002. Under the terms of PCG's contract, PCG is paid for operational services on the basis of Available Prisoner Places. Prior to assuming operational control, the Prison Service paid PCG based upon 400 Available Prisoner Places. From May 23, 2002 through

**Table of Contents**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

October 23, 2002, the Prison Service paid PCG only for the number of beds actually occupied, which averaged approximately 200 during this period. As a result, PCG's revenues for the Ashfield Facility were reduced by approximately half during this period. In addition, PCG incurred costs in additional resources and staff brought in to address the operational issues at Ashfield. PCG provided the Prison Service with a comprehensive plan for addressing all operational issues at the Ashfield Facility, which was approved by the Authority and implemented by PCG. Effective October 23, 2002, the Prison Service restored payment to PCG for 400 Available Prisoner Places in accordance with the payment provisions set forth in the operating agreement. Subsequently, on January 8, 2003, the Prison Services notified PCG that due to operational issues it was again reducing payment to only pay for the number of beds actually occupied effective December 2, 2002 resulting in a reduction of facility revenues by approximately one-half. PCG has submitted a comprehensive plan for addressing these latest operational issues. On January 30, 2003, PCG notified the Prison Service that it considered all operational issues identified in the Prison Service Rectification Notice to be corrected and expected full payment to be restored effective from January 30, 2003. The Prison Service began an audit of the facility's operations in February 2003 and is currently considering the outcome of that audit. PCG expects full revenues to be restored effective January 30, 2003, but there can be no assurance that this will occur until the Prison Service makes its determination.

In Australia, the Department of Immigration, Multicultural and Indigenous Affairs ( DIMIA ) announced its intention to enter into contract negotiations with a competitor of the Company's Australian subsidiary for the management and operation of Australia's immigration centers. DIMIA has further stated that if it is unable to reach agreement with the announced preferred bidder, it will enter into negotiations with the Company's Australian subsidiary. The Company is continuing to operate the centers under its current contract, which is due to expire on or before June 23, 2003 but may be extended by the government if negotiations are not completed with the successful tenderer. If negotiations are not successful, WCC's Australian subsidiary is the only other qualified tenderer for consideration. In 2002, the contract with DIMIA represented approximately 10% of the Company's revenue (exclusive revenue of 50-50 joint ventures). In both 2001 and 2000, DIMIA represented approximately 11% of the Company's revenue. The Company does not have any lease obligations related to its contract with DIMIA.

**TWC MERGER WITH GROUP 4 FALCK**

On May 8, 2002, TWC consummated a merger (the Merger ) with a wholly owned subsidiary of Group 4 Falck A/ S ( Group 4 Falck ), a Danish multinational security and correctional services company. As a result of the Merger, Group 4 Falck has become the indirect beneficial owner of 12 million shares in the Company. The Company's common stock continues to trade on the New York Stock Exchange.

Subsequent to the Merger, Group 4 Falck indicated that it intends to divest its interest in the Company. As a result, the Independent Committee of the Board of Directors has hired legal and financial advisors to advise the Company with respect to Group 4 Falck's stated intentions.

In the United Kingdom, the Merger has been reviewed by the Office of Fair Trade and was referred to the Competition Commission for further investigation. The Company conducts most of its business in the United Kingdom through PCG, a 50/50 joint venture with Serco Investments Limited ( Serco ). PCG currently manages six correctional facilities, one immigration detention center, two court escort contracts and two electronic monitoring services contracts. Many of PCG's contracts include a provision that makes the failure to obtain United Kingdom Home Office approval of a change in control an event of default. The Competition Commission completed its investigation and in a report published on October 22, 2002 approved the Merger without conditions. The Youth Justice Board and the Scottish Prison Service have approved the merger. We are waiting for approval from The Home Office Prison Service, The Home Office Monitoring Service and The Immigration Service.

**Table of Contents****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The Merger may affect the Company's interests in PCG. The Company's United Kingdom joint venture partner, Serco, has indicated that it believes the Merger provides Serco with a right to acquire the Company's 50 percent interest in PCG in the absence of Serco's consent to the Merger. The Company disputes the validity of this claim. Group 4 Falck has agreed that in the event the Company is ordered by a court of competent jurisdiction to sell its interest in PCG to Serco at a price below fair market value, Group 4 Falck will reimburse the Company for the amount by which the sale is below fair market value, up to a maximum of 10 percent of the fair market value of the interest. The Company has filed a declaratory judgment suit in the United Kingdom to determine its rights under the joint venture agreement with Serco. The case is scheduled to be heard in May 2003.

The Company has taken steps to safeguard its interest in PCG, as well as PCG's contract interests, but there can be no assurance that these steps will be sufficient to avoid a material adverse effect on the Company's business interests in the United Kingdom.

**LEASES**

The Company leases correctional facilities, office space, computers and vehicles under non-cancelable operating leases expiring between 2003 and 2012. The future minimum commitments under these leases exclusive of lease commitments related to CPV, are as follows:

Fiscal Year	Annual Rental
	(In thousands)
2003.	\$ 6,779
2004	6,897
2005	6,911
2006	6,925
2007	3,710
Thereafter	21,061
	<hr/> \$52,283 <hr/>

Rent expense was approximately \$15.7 million, \$15.8 million, and \$12.2 million for fiscal 2002, 2001, and 2000 respectively and included lease expense under our operating lease facility that expired in December 2002 (See Note 4).

**Litigation, Claims and Assessments**

The Company is defending a wage and hour lawsuit filed in California state court by ten current and former employees. The employees are seeking certification of a class which would encompass all current and former WCC California correctional officers in certain selected posts. Discovery is underway and the court has yet to hear the plaintiffs' certification motion. The Company is unable to estimate the potential loss exposure due to the current procedural posture of the lawsuit. While the plaintiffs in this case have not quantified their claim of damages and the outcome of the matters discussed above cannot be predicted with certainty, based on information known to date, management believes that the ultimate resolution of these matters, if settled unfavorably to the Company, could have a material adverse effect on the Company's financial position, operating results and cash flows. The Company is vigorously defending its rights in this action. The nature of the Company's business results in claims or litigation against the Company incidental to the Company's business, including claims for damages arising from the conduct of its employees or others. It is reasonably possible that the outcome of such claims or litigation that are currently pending could result in losses to the Company; however, except for any potential losses incurred as a result of the wage and hour lawsuit described above, the Company believes that the impact of any losses incurred as a result of such pending claims or litigation would not have a material adverse effect on its financial condition or results of operations.

**Table of Contents****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****8. Common, Preferred and Shares Repurchased and Retired**

In April 1994, the Company's Board of Directors authorized 10,000,000 shares of blank check preferred stock. The Board of Directors is authorized to determine the rights and privileges of any future issuance of preferred stock such as voting and dividend rights, liquidation privileges, redemption rights and conversion privileges.

On February 18, 2000, the Company's Board of Directors authorized the repurchase of up to 500,000 shares of its common stock, in addition to the 1,000,000 shares previously authorized for repurchase. As of December 30, 2001, the Company had repurchased all of the 1.5 million common shares authorized for repurchase at an average price of \$15.52. For fiscal 2001, the Company repurchased 122,000 shares at an average price of \$12.68. There were no share repurchases in 2002.

**9. Business Segment and Geographic Information**

The Company operates in one industry segment encompassing the development and management of privatized government institutions located in the United States, the United Kingdom, Australia, South Africa, and New Zealand.

The Company operates and tracks its results in geographic operating segments. Information about the Company's operations in different geographical regions is shown below. Revenues are attributed to geographical areas based on location of operations and long-lived assets consist of property, plant and equipment.

Fiscal Year	2002	2001	2000
	(In thousands)		
<b>REVENUES:</b>			
U.S. operations	\$451,465	\$454,053	\$426,510
Australia operations	117,147	108,020	109,047
Total revenues	<u>\$568,612</u>	<u>\$562,073</u>	<u>\$535,557</u>
<b>OPERATING INCOME:</b>			
U.S. operations	\$ 26,066	\$ 19,559	\$ 9,620
Australia operations	1,810	4,625	9,292
Total operating income	<u>\$ 27,876</u>	<u>\$ 24,184</u>	<u>\$ 18,912</u>
<b>LONG-LIVED ASSETS:</b>			
U.S. operations	\$200,258	\$ 47,639	\$ 48,274
Australia operations	6,208	6,119	6,346
Total long-lived assets	<u>\$206,466</u>	<u>\$ 53,758</u>	<u>\$ 54,620</u>

The Company's international operations represent its wholly owned Australian subsidiaries. Through its wholly owned subsidiary, Wackenhut Corrections Corporation Australia Pty. Limited, the Company currently manages five correctional facilities, including a facility in New Zealand and six immigration detention centers and two temporary detention centers.

**Table of Contents****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Except for the major customers noted in the following table, no single customer provided more than 10% of the Company's consolidated revenues during fiscal 2002, 2001 and 2000:

<b>Customer</b>	<b>2002</b>	<b>2001</b>	<b>2000</b>
Various agencies of the U.S. Federal Government	19%	18%	11%
Various agencies of the State of Texas	17%	16%	15%
Various agencies of the State of Florida	14%	14%	19%
Department of Immigration, Multicultural and Indigenous Affairs (Australia)	10%	11%	11%

Concentration of credit risk related to accounts receivable is reflective of the related revenues.

Equity in earnings of affiliates represents the operations of the Company's 50% owned joint ventures in the United Kingdom (Premier Custodial Group Limited) and South Africa (South African Custodial Management Pty. Limited and South African Custodial Services Pty. Limited). These entities and their subsidiaries are accounted for under the equity method. Premier Custodial Group Limited commenced operations of an initial prison in fiscal 1994, two court escort and transport contracts in fiscal 1996, a second correctional facility in fiscal 1998, three correctional facilities and electronic monitoring contracts in fiscal 1999 and a correctional facility and an immigration facility in fiscal 2001. Total equity in the undistributed earnings for Premier Custodial Group Limited, before income taxes, for fiscal 2002, 2001, and 2000 was \$10.2 million, \$7.6 million and \$7.5 million, respectively. South African Custodial Management Pty. Limited and South African Custodial Services Pty. Limited commenced operations on their first prison in fiscal 2002. Total equity in undistributed loss for South African Custodial Management Pty Limited and South African Custodial Services Pty. Limited was (\$2.0) million, (\$0.7) million and zero in 2002, 2001 and 2000 respectively.

**Table of Contents****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

A summary of financial data for the Company's equity affiliates in South Africa is as follows:

Fiscal Year	2002	2001	2000
<b>(In thousands)</b>			
<b>STATEMENT OF OPERATIONS DATA</b>			
Revenues	\$ 15,928	\$	\$
Operating income (loss)	1,016	(1,749)	
Net loss	(2,481)	(1,441)	
<b>BALANCE SHEET DATA</b>			
Current assets	6,426	5,112	6,561
Noncurrent assets	47,125	31,924	14,357
Current liabilities	1,808	913	32
Noncurrent liabilities	52,170	32,746	13,969
Shareholders' (deficit) equity	(427)	3,377	6,917

**10. Income Taxes**

The provision for income taxes in the consolidated statements of income consists of the following components:

Fiscal Year	2002	2001	2000
<b>(In thousands)</b>			
<b>Federal income taxes:</b>			
Current	\$ 8,354	\$ 6,497	\$ 3,718
Deferred	(603)	(972)	(1,429)
	<u>7,751</u>	<u>5,525</u>	<u>2,289</u>
<b>State income taxes:</b>			
Current	\$ 2,262	\$ 1,382	\$ 1,341
Deferred	(76)	(123)	(180)
	<u>2,186</u>	<u>1,259</u>	<u>1,161</u>
<b>Foreign:</b>			
Current	\$ 2,747	\$ 2,497	\$ 5,245
Deferred	(32)	425	(343)
	<u>2,715</u>	<u>2,922</u>	<u>4,902</u>
<b>Total</b>	<b><u>\$ 12,652</u></b>	<b><u>\$ 9,706</u></b>	<b><u>\$ 8,352</u></b>

A reconciliation of the statutory U.S. federal tax rate (35.0%) and the effective income tax rate is as follows:

	2002	2001	2000
<b>(In thousands)</b>			
Provisions using statutory federal income tax rate	\$ 10,127	\$ 8,703	\$ 7,300
State income taxes, net of federal tax benefit	1,421	775	692



Edgar Filing: WACKENHUT CORRECTIONS CORP - Form 10-K/A

Change in control costs	896		
Other, net	<u>208</u>	<u>228</u>	<u>360</u>
	\$ 12,652	\$ 9,706	\$ 8,352

**Table of Contents****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The components of the net current deferred income tax asset at fiscal year end are as follows:

	2002	2001
	<u>          </u>	<u>          </u>
	(In thousands)	
Uniforms	\$ (156)	\$ (264)
Allowance for doubtful accounts	508	1,241
Accrued vacation	1,023	870
Accrued liabilities	5,786	4,194
	<u>          </u>	<u>          </u>
	\$7,161	\$6,041
	<u>          </u>	<u>          </u>

The components of the net non-current deferred income tax asset at fiscal year end are as follows:

Fiscal Year	2002	2001
	<u>          </u>	<u>          </u>
	(In thousands)	
Depreciation	\$ (2,454)	\$ (2,049)
Deferred revenue	6,464	7,517
Deferred charges	2,929	2,111
Income of foreign subsidiaries and affiliates	(6,773)	(6,826)
Other, net	(47)	(37)
	<u>          </u>	<u>          </u>
	\$ 119	\$ 716
	<u>          </u>	<u>          </u>

The exercise of non-qualified stock options which have been granted under the Company's stock option plans give rise to compensation which is includable in the taxable income of the applicable employees and deducted by the Company for federal and state income tax purposes. Such compensation results from increases in the fair market value of the Company's common stock subsequent to the date of grant. In accordance with Accounting Principles Board Opinion No. 25, such compensation is not recognized as an expense for financial accounting purposes and related tax benefits are credited directly to additional paid-in-capital.

**11. Earnings Per Share**

The table below shows the amounts used in computing earnings per share (EPS) in accordance with Statement of Financial Accounting Standards No. 128 and the effects on income and the weighted average number of shares of potential dilutive common stock.

Fiscal Year	2002	2001	2000
	<u>          </u>	<u>          </u>	<u>          </u>
	(In thousands, except per share data)		
Net income	\$21,501	\$19,379	\$16,994
Basic earnings per share:			
Weighted average shares outstanding	21,148	21,028	21,110
	<u>          </u>	<u>          </u>	<u>          </u>
Per share amount	\$ 1.02	\$ 0.92	\$ 0.81
	<u>          </u>	<u>          </u>	<u>          </u>

Edgar Filing: WACKENHUT CORRECTIONS CORP - Form 10-K/A

Diluted earnings per share:			
Weighted average shares outstanding	21,148	21,028	21,110
Effect of dilutive securities:			
Employee and director stock options	216	233	141
	<u>        </u>	<u>        </u>	<u>        </u>
Weighted average shares assuming dilution	21,364	21,261	21,251
	<u>        </u>	<u>        </u>	<u>        </u>
Per share amount	\$ 1.01	\$ 0.91	\$ 0.80
	<u>        </u>	<u>        </u>	<u>        </u>

For fiscal 2002, options to purchase 784,600 shares of the Company's common stock with exercise prices ranging from \$14.69 to \$26.88 per share and expiration dates between 2006 and 2012 were

**Table of Contents****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

outstanding at December 29, 2002, but were not included in the computation of diluted EPS because their effect would be anti-dilutive.

For fiscal 2001, options to purchase 510,000 shares of the Company's common stock with exercise prices ranging from \$13.75 to \$26.88 per share and expiration dates between 2005 and 2011 were outstanding at December 30, 2001, but were not included in the computation of diluted EPS because their effect would be anti-dilutive.

For fiscal 2000, outstanding options to purchase 924,600 shares of the Company's common stock with exercise prices ranging from \$8.44 to \$26.88 and expiration dates between 2005 and 2010, were also excluded from the computation of diluted EPS because their effect would be anti-dilutive.

**12. Related Party Transactions with The Wackenhut Corporation**

Related party transactions occur in the normal course of business between the Company and TWC. Such transactions include the purchase of goods and services and corporate costs for management support, office space, insurance and interest expense.

The Company incurred the following expenses related to transactions with TWC in the following years:

Fiscal Year	2002	2001	2000
	(In thousands)		
General and administrative expenses	\$ 2,591	\$ 2,831	\$ 3,468
Casualty insurance premiums	17,973	21,952	13,588
Rent	514	286	315
Net interest expense	32	49	65
	<u>\$21,110</u>	<u>\$25,118</u>	<u>\$17,436</u>

General and administrative expenses represent charges for management and support services. TWC provides various general and administrative services to the Company under a Services Agreement, through which TWC provides payroll services, human resources support, tax services and information technology support services through December 31, 2002. Beginning January 1, 2003, the only services provided will be for information technology support through year-end 2004. The Company has negotiated annual rates with TWC based upon the level of service to be provided under the Services Agreement. The Company believes that such rates are on terms no less favorable than the Company could obtain from unaffiliated third parties.

The Company also leases office space from TWC for its corporate headquarters under a non-cancelable operating lease that expires February 11, 2011. Management of the Company has decided to relocate its corporate headquarters to Boca Raton, Florida and has entered into a ten-year lease for new office space. The Company expects to complete the move by April 2003. Management is in the process of marketing the space the Company currently leases from TWC and believes that a sublease will be entered into under terms and conditions similar to those contained in the Company's lease with TWC. The remaining obligation on the lease is approximately \$5.3 million. There can be no assurance that the Company will be successful in its efforts to sublease the current office space.

**13. Stock Options**

The Company has four stock option plans: the Wackenhut Corrections Corporation 1994 Stock Option Plan (First Plan), the Wackenhut Corrections Corporation Stock Option Plan (Second Plan), the 1995 Non-Employee Director Stock Option Plan (Third Plan) and the Wackenhut Corrections Corporation 1999 Stock Option Plan (Fourth Plan). All outstanding options vested immediately upon the Merger.

**Table of Contents****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Under the First Plan, the Company may grant up to 897,600 shares of common stock to key employees and consultants. All options granted under this plan are exercisable at the fair market value of the common stock at the date of the grant, vest 100% immediately and expire no later than ten years after the date of the grant.

Under the Second Plan and Fourth Plan, the Company may grant options to key employees for up to 1,500,000 and 550,000 shares of common stock, respectively. Under the terms of these plans, the exercise price per share and vesting period is determined at the sole discretion of the Board of Directors. All options that have been granted under these plans are exercisable at the fair market value of the common stock at the date of the grant. Generally, the options vest and become exercisable ratably over a four-year period, beginning immediately on the date of the grant. However, the Board of Directors has exercised its discretion and has granted options that vest 100% immediately. All options under the Second Plan and Fourth Plan expire no later than ten years after the date of the grant.

Under the Third Plan, the Company may grant up to 60,000 shares of common stock to non-employee directors of the Company. Under the terms of this plan, options are granted at the fair market value of the common stock at the date of the grant, become exercisable immediately, and expire ten years after the date of the grant.

A summary of the status of the Company's four stock option plans is presented below.

Fiscal Year	2002		2001		2000	
	Shares	Wtd. Avg. Exercise Price	Shares	Wtd. Avg. Exercise Price	Shares	Wtd. Avg. Exercise Price
Outstanding at beginning of year	1,417,102	\$ 12.40	1,315,202	\$ 12.70	1,132,634	\$ 14.21
Granted	330,000	15.41	248,500	9.40	301,000	8.45
Exercised	268,396	4.72	86,200	4.60	4,032	2.97
Forfeited/ Cancelled	68,400	18.67	60,400	17.75	114,400	16.79
Options outstanding at end of year	1,410,306	14.26	1,417,102	12.40	1,315,202	12.70
Options exercisable at year end	1,410,306	\$ 14.26	1,079,202	\$ 12.61	960,102	\$ 11.94

The following table summarizes information about the stock options outstanding at December 29, 2002:

Options Outstanding				Options Exercisable		
Exercise Prices		Number Outstanding	Wtd. Avg. Remaining Contractual Life	Wtd. Avg. Exercise Price	Number Exercisable	Wtd. Avg. Exercise Price
\$ 3.75	\$ 3.75	81,406	1.4	\$ 3.75	81,406	\$ 3.75
\$ 7.88	\$ 9.30	467,300	7.6	8.85	467,300	8.85
\$ 11.88	\$ 13.75	77,000	3.5	11.94	77,000	11.94
\$ 14.69	\$ 16.88	354,000	8.9	15.38	354,000	15.38
\$ 18.38	\$ 21.50	248,600	5.5	19.56	248,600	19.56
\$ 22.63	\$ 25.06	169,500	4.7	24.31	169,500	24.31
\$ 26.13	\$ 26.88	12,500	5.5	26.28	12,500	26.28
		1,410,306	6.6	\$ 14.26	1,410,306	\$ 14.26



The Company had 148,674 options available to be granted at December 29, 2002 under the aforementioned stock plans.

**Table of Contents****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The Company accounts for these plans under APB Opinion No. 25, under which no compensation cost has been recognized. Had compensation cost for these plans been determined based on the fair value at date of grant in accordance with FASB Statement No. 123, the Company's net income and earnings per share would have been reduced to the pro forma amounts as follows:

Pro Forma Disclosures	2002		2001		2000	
	(In thousands, except per share data)					
Pro forma net income	\$20,441		\$18,401		\$15,872	
Pro forma basic net earnings per share	\$ 0.97		\$ 0.88		\$ 0.75	
Pro forma diluted net earnings per share	\$ 0.96		\$ 0.87		\$ 0.75	
Pro forma weighted average fair value of options granted	\$ 5.25		\$ 5.15		\$ 4.90	
Risk free interest rates	2.37%	3.47%	4.61%	5.04%	5.77%	6.70%
Expected lives	4-8 years		4-8 years		4-8 years	
Expected volatility	49%		52%		54%	

**14. Retirement and Deferred Compensation Plans**

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

The assumptions for the discount rate and the average increase in compensation used in determining the pension expense and funded status information are 6.5% and 5.5%, respectively. Prior to 2001, the Company used a discount rate of 7.5%.

The total pension expense for 2002, 2001, and 2000 was \$0.4 million, \$0.2 million, and \$0.4 million, respectively. The accumulated benefit obligation at year-end 2002 and 2001 was \$0.5 million and \$0.2 million, respectively and is included in Other liabilities in the accompanying consolidated balance sheets.

In 2001, the Company established non-qualified deferred compensation agreements with three key executives providing for fixed annual benefits ranging from \$150,000 to \$250,000 payable upon retirement at age 60 for a period of 25 years. In March 2002, the Company and the executives agreed to amend the retirement agreements to provide for a lump sum payment at an accelerated retirement age of 55 and to enter into employment agreements upon a change in control.

The Merger between TWC and Group 4 Falck triggered change in control provisions in the three key executives' employment and retirement agreements. The employment agreements entitle the executives, if they remain employed by the Company for at least two years following the Merger, to twenty-four consecutive monthly payments equal, in total, to three times each executive's 2002 salary plus bonus. In addition, the change in control accelerated the executive's eligibility for retirement from age 60 to 55 and provided for a one-time payment at age 55 to the executive based on the net present value of the benefit, as defined by the executive retirement agreement.

The cost of these revised agreements is being charged to expense and accrued using a present value method over the expected remaining terms of employment. The charge to expense for the amended agreements for 2002 was \$3.1 million. Currently, the plan is not funded. Subsequent to year-end, the Company and the executives amended the agreements to defer the retirement payment until the respective executives actually retire, no sooner than age 55. The Company paid approximately \$1.8 million related to the change in control provisions per the employment agreements in 2002 and expects to pay out an additional approximately \$3.1 million and \$1.3 million under the agreements in 2003 and 2004, respectively.

**Table of Contents****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The accumulated benefit obligation of \$7.1 million and \$4.1 million at year-end 2002 and 2001 is included in Other liabilities in the accompanying consolidated balance sheet. The unamortized prior service cost of \$1 million is included in Other noncurrent assets in the accompanying consolidated financial statements and is being amortized over the estimated remaining service periods ranging from three to thirteen years.

The Company has established a deferred compensation agreement for non-employee directors, which allows eligible directors to defer their compensation in either the form of cash or stock. Participants may elect lump sum or monthly payments to be made at least one year after the deferral is made or at the time the participant ceases to be a director. The Company recognized total compensation expense under this plan of zero, \$0.1 million and \$0.2 million for 2002, 2001, and 2000, respectively. Payouts under the plan were approximately \$0.1 million in 2002. The liability for the deferred compensation was \$0.4 million and \$0.5 million at year-end 2002 and 2001, respectively, and is included in Accrued expenses in the accompanying consolidated balance sheets.

The Company also has a non-qualified deferred compensation plan for employees who are ineligible to participate in the Company's qualified 401(k) plan. Eligible employees may defer a fixed percentage of their salary, which earns interest at a rate equal to the prime rate less 0.75%. The Company matches employee contributions up to \$400 each year based on the employee's years of service. Payments will be made at retirement age of 65 or at termination of employment. The expense recognized by the Company in 2002, 2001, and 2000 was \$0.2 million, \$0.3 million and \$0.4 million, respectively. The liability for this plan at year-end 2002 and 2001 was \$1.3 million and \$1.1 million, respectively, and is included in Accrued expenses in the accompanying consolidated balance sheets.

**15. Selected Quarterly Financial Data (Unaudited)**

Selected quarterly financial data for the Company and its subsidiaries for the fiscal years ended December 29, 2002 and December 30, 2001, is as follows:

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
(In thousands, except per share data)				
<b>2002</b>				
Revenues	\$ 140,182	\$ 141,192	\$ 141,706	\$ 145,532
Operating income	\$ 5,918	\$ 7,483	\$ 7,613	\$ 6,862
Net income	\$ 5,183	\$ 5,405	\$ 5,358	\$ 5,555
Basic earnings per share	\$ 0.25	\$ 0.26	\$ 0.25	\$ 0.26
Diluted earnings per share	\$ 0.24	\$ 0.25	\$ 0.25	\$ 0.26
<b>2001</b>				
Revenues	\$ 135,003	\$ 141,715	\$ 142,207	\$ 143,148
Operating income	\$ 2,543	\$ 6,417	\$ 9,046	\$ 6,178
Net income	\$ 2,632	\$ 5,323	\$ 5,843	\$ 5,581
Basic earnings per share	\$ 0.13	\$ 0.25	\$ 0.28	\$ 0.27
Diluted earnings per share	\$ 0.12	\$ 0.25	\$ 0.27	\$ 0.26



**Table of Contents**

**REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS**

The Board of Directors and Shareholders  
Wackenhut Corrections Corporation

We have audited the accompanying consolidated balance sheet of Wackenhut Corrections Corporation as of December 29, 2002, and the related consolidated statements of income, cash flows and shareholders' equity for the year then ended. The consolidated financial statements of the Company as of December 30, 2001 and for each of the two years in the period ended December 30, 2001 were audited by other auditors who have ceased operations and whose report dated February 6, 2002 expressed an unqualified opinion on those statements. Our audit also included the 2002 financial information included in the financial statement schedule listed in the Index at Item 15(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Wackenhut Corrections Corporation at December 29, 2002, and the consolidated results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States. Also, in our opinion, the related 2002 financial information included in the financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

As discussed in Note 2 to the consolidated financial statements, effective December 31, 2001, the Company changed its method of accounting for goodwill and other intangible assets.

As discussed above, the consolidated financial statements of the Company as of December 30, 2001 and for each of the two years in the period ended December 30, 2001 were audited by other auditors who have ceased operations. As described in Note 2, these financial statements have been revised to include the transitional disclosures required by Statement of Financial Accounting Standards (Statement) No. 142, *Goodwill and Other Intangible Assets*, which was adopted by the Company as of December 31, 2001. Our audit procedures with respect to the disclosures in Note 2 with respect to 2001 and 2000 included (a) agreeing the previously reported net income to the previously issued financial statements and the adjustments to reported net income representing amortization expense (including any related tax effects) recognized in those periods related to goodwill and goodwill related to equity investees to the Company's underlying records obtained from management, and (b) testing the mathematical accuracy of the reconciliation of adjusted net income to reported net income, and the related earnings-per-share amounts. In our opinion, the disclosures for 2001 and 2000 in Note 2 are appropriate. However, we were not engaged to audit, review, or apply any procedures to the 2001 and 2000 consolidated financial statements of the Company other than with respect to such disclosures and, accordingly, we do not express an opinion or any other form of assurance on the 2001 and 2000 consolidated financial statements taken as a whole.

ERNST & YOUNG LLP

West Palm Beach, Florida

February 11, 2003

**Table of Contents**

**THIS REPORT IS A COPY OF A REPORT PREVIOUSLY ISSUED BY ARTHUR ANDERSEN LLP. THE REPORT HAS NOT BEEN REISSUED BY ARTHUR ANDERSEN LLP NOR HAS ARTHUR ANDERSEN LLP PROVIDED A CONSENT TO THE INCLUSION OF ITS REPORT IN THIS FORM 10-K.**

**REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS**

To Wackenhut Corrections Corporation:

We have audited the accompanying consolidated balance sheets of Wackenhut Corrections Corporation (a Florida corporation) and subsidiaries as of December 30, 2001 and December 31, 2000, and the related consolidated statements of operations, stockholders' equity and comprehensive income and cash flows for each of the three fiscal years in the period ended December 30, 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Wackenhut Corrections Corporation and subsidiaries as of December 30, 2001 and December 31, 2000, and the results of their operations and their cash flows for each of the three years in the period ended December 30, 2001 in conformity with accounting principles generally accepted in the United States.

As discussed in Note 2 to the financial statements, effective January 1, 2001, the Company changed its method of accounting for derivative instruments.

ARTHUR ANDERSEN LLP

West Palm Beach, Florida,

February 6, 2002

**Table of Contents**

**MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS**

To the Shareholders of  
Wackenhut Corrections Corporation:

The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States. They include amounts based on judgments and estimates.

Representation in the consolidated financial statements and the fairness and integrity of such statements are the responsibility of management. In order to meet management's responsibility, the Company maintains a system of internal controls and procedures and a program of internal audits designed to provide reasonable assurance that the Company's assets are controlled and safeguarded, that transactions are executed in accordance with management's authorization and properly recorded, and that accounting records may be relied upon in the preparation of financial statements.

The consolidated financial statements have been audited by Ernst & Young LLP, independent certified public accountants, whose appointment was ratified by the Company's shareholders. Their report expresses a professional opinion as to whether management's consolidated financial statements considered in their entirety present fairly, in conformity with accounting principles generally accepted in the United States, the Company's financial position and results of operations. Their audit was conducted in accordance with auditing standards generally accepted in the United States. As part of this audit, Ernst & Young LLP considered the Company's system of internal controls to the degree they deemed necessary to determine the nature, timing, and extent of their audit tests which support their opinion on the consolidated financial statements.

The Audit Committee of the Board of Directors meets periodically with representatives of management, the independent certified public accountants and the Company's internal auditors to review matters relating to financial reporting, internal accounting controls and auditing. Both the internal auditors and the independent certified public accountants have unrestricted access to the Audit Committee to discuss the results of their reviews.

GEORGE C. ZOLEY  
*Chairman and Chief Executive Officer*

WAYNE H. CALABRESE  
*Vice Chairman, President and Chief Operating Officer*

JOHN G. O'ROURKE  
*Senior Vice President  
Chief Financial Officer and Treasurer*

**Table of Contents**

CONSOLIDATED FINANCIAL STATEMENTS

Premier Custodial Group Limited

Years ended December 31, 2002, 2001 and 2000  
with Report of Independent Auditors

31

---

**Table of Contents**

Premier Custodial Group Limited

Consolidated Financial Statements

**Contents**

Report of Independent Auditors	33
Consolidated Financial Statements	
Consolidated Balance Sheets as of December 31, 2002, 2001 and 2000	34
Consolidated Statements of Income for the years ended December 31, 2002, 2001 and 2000	35
Consolidated Statements of Shareholders' Equity and Comprehensive Income (Loss) for the years ended December 31, 2002, 2001 and 2000	36
Consolidated Statements of Cash Flows for the years ended December 31, 2002, 2001 and 2000	37
Notes to Consolidated Financial Statements for the years ended December 31, 2002, 2001 and 2000	38

**Table of Contents**

Report of Independent Auditors

The Shareholders  
Premier Custodial Group Limited

We have audited the accompanying consolidated balance sheets of Premier Custodial Group Limited and subsidiaries (the Company) as of December 31, 2002, 2001 and 2000, and the related consolidated statements of income, cash flows and shareholders' equity for each of the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Premier Custodial Group Limited and subsidiaries as of December 31, 2002, 2001 and 2000 and the consolidated results of their operations and their consolidated cash flows for each of the years then ended, in conformity with accounting principles generally accepted in the United States.

As discussed in Note 2 to the consolidated financial statements, effective January 1, 2001, the Company changed its method of accounting for derivative instruments and effective January 1, 2002, the Company changed its method of accounting for goodwill.

ERNST & YOUNG LLP

London, England  
June 30, 2003

**Table of Contents**Premier Custodial Group Limited  
Consolidated Balance Sheets

	December 31		
	2002	2001	2000
( in thousands, except for share data)			
<b>Assets</b>			
Current assets:			
Cash and cash equivalents	\$ 11,642	\$ 11,559	\$ 14,126
Restricted cash	16,744	15,394	14,633
Accounts receivable, less allowance for doubtful accounts of \$492, \$444 and \$0	15,179	10,719	5,311
Prepays and other receivables	31,467	24,785	22,874
Amounts owed by shareholder		7,251	7,466
Other	10,429	11,614	4,394
	<u>85,461</u>	<u>81,322</u>	<u>68,804</u>
Total current assets	85,461	81,322	68,804
Property and equipment, net	5,770	4,668	4,758
Construction in progress			108,351
Other assets	2,788	2,586	1,594
Investment in direct finance leases	293,307	270,729	166,658
Goodwill	903	903	1,419
	<u>\$388,229</u>	<u>\$360,208</u>	<u>\$351,584</u>
<b>Liabilities and Shareholders' Equity</b>			
Current liabilities:			
Accounts payable	\$ 5,977	\$ 5,954	\$ 3,371
Accrued payroll and related taxes	7,634	6,897	3,234
Deferred revenue	5,951	3,629	1,935
Accrued expenses	4,457	4,329	11,354
Current portion of long-term debt	31,676	22,291	22,078
	<u>55,695</u>	<u>43,100</u>	<u>41,972</u>
Total current liabilities	55,695	43,100	41,972
Long-term debt	278,468	281,182	280,906
Deferred taxes	9,761	4,787	3,089
Other	43,218	28,967	1,935
Commitments and contingencies			
Shareholders' equity:			
Common stock, £0.01 par value, 1,000,000 shares authorized, 600,004 shares issued and outstanding	9	9	9
Additional paid-in capital	2,244	2,244	2,244
Retained earnings	35,058	27,030	22,506
Accumulated other comprehensive loss	(36,224)	(27,111)	(1,077)
	<u>1,087</u>	<u>2,172</u>	<u>23,682</u>
Total shareholders' equity	1,087	2,172	23,682
	<u>\$388,229</u>	<u>\$360,208</u>	<u>\$351,584</u>

The accompanying notes are an integral part of these consolidated financial statements.





**Table of Contents**

## Premier Custodial Group Limited

## Consolidated Statements of Income

	Year ended December 31		
	2002	2001	2000
	( in thousands)		
Revenues	\$ 153,533	\$ 121,163	\$ 115,277
Cost of sales	132,568	104,440	96,686
Gross profit	20,965	16,723	18,591
Depreciation and amortization	2,789	2,010	2,822
Contribution from operations	18,176	14,713	15,769
General and administrative expenses	10,184	7,156	7,004
Operating income	7,992	7,557	8,765
Interest income	35,331	28,242	23,262
Interest expense	(24,772)	(20,255)	(15,957)
Income before income taxes	18,551	15,544	16,070
Provision for income taxes	7,287	5,273	7,571
Net income	\$ 11,264	\$ 10,271	\$ 8,499

*The accompanying notes are an integral part of these consolidated financial statements.*

**Table of Contents**

## Premier Custodial Group Limited

Consolidated Statements of Shareholders Equity  
and Comprehensive Income (Loss)

## Years ended December 31, 2002, 2001 and 2000

	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated	Total Shareholders Equity
	Number of Shares	Amount			Other Comprehensive Loss	
	( in thousands, except for share data)					
Balance, January 1, 2000	600,004	\$ 9	\$ 2,244	\$ 14,007	\$ (28)	\$ 16,232
Net income				8,499		
Change in foreign currency translation					(1,049)	
Total comprehensive income						7,450
Balance, December 31, 2000	600,004	9	2,244	22,506	(1,077)	23,682
Net income				10,271		
Change in foreign currency translation					(696)	
Cumulative effect of change in accounting principle related to derivative instruments					(24,186)	
Unrealized loss on derivative instruments					(1,152)	
Total comprehensive loss						(15,763)
Dividends paid				(5,747)		(5,747)
Balance, December 31, 2001	600,004	9	2,244	27,030	(27,111)	2,172
Net income				11,264		
Change in foreign currency translation					2,818	
Unrealized loss on derivative instruments					(11,931)	
Total comprehensive income						2,151
Dividends paid				(3,236)		(3,236)
Balance, December 31, 2002	600,004	\$ 9	\$ 2,244	\$ 35,058	\$ (36,224)	\$ 1,087

The accompanying notes are an integral part of these consolidated financial statements.

**Table of Contents**Premier Custodial Group Limited  
Consolidated Statements of Cash Flows

	Year ended December 31		
	2002	2001	2000
	( in thousands)		
<b>Cash flow from operating activities</b>			
Net income	\$ 11,264	\$ 10,271	\$ 8,499
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization expense	2,789	2,010	2,822
Deferred taxes	4,454	2,126	4,308
Provision for doubtful accounts		445	
Changes in assets and liabilities:			
Accounts receivable	(3,111)	(5,967)	5,396
Prepays and other receivables	(2,117)	(2,551)	(3,610)
Other current assets	2,269	(1,221)	332
Other assets	68	(1,031)	(1,623)
Accounts payable and accrued expenses	(1,155)	(4,340)	(5,169)
Deferred revenue	1,814	1,738	1,526
Accrued payroll and related taxes	3	3,729	122
Other liabilities	1,812	1,738	1,972
Net cash provided by operating activities	18,090	6,947	14,575
<b>Cash flow from investing activities</b>			
Capital expenditures	(3,928)	(15,842)	(80,444)
Investments in direct financing leases	4,165	4,541	4,762
Net cash used in investing activities	237	(11,301)	(75,682)
<b>Cash flow from financing activities</b>			
Increase (decrease) in cash restricted for debt service	272	(1,175)	(8,243)
Net proceeds (payments) from revolving credit facility	(3,638)	(1,862)	1,059
Proceeds from long-term debt		20,872	79,150
Payments on long-term debt	(20,376)	(9,863)	(7,556)
Increase (decrease) in advances due from shareholder	7,521		(7,607)
Payment of dividends	(3,236)	(5,747)	
Net cash provided by (used in) financing activities	(19,457)	2,225	56,803
Effect of exchange rate changes on cash and cash equivalents	1,213	(438)	(1,451)
Net (decrease) increase in cash and cash equivalents	83	(2,567)	(5,755)
Cash and cash equivalents, beginning of period	11,559	14,126	19,881
Cash and cash equivalents, end of period	\$ 11,642	\$ 11,559	\$ 14,126
<b>Supplemental disclosures</b>			
Cash paid during the year for:			
Income taxes	\$ 7,526	\$ 5,562	\$ 7,120
Interest	\$ 24,707	\$ 20,192	\$ 15,851
<b>Supplemental disclosure of non-cash investing and financing activities</b>			

Edgar Filing: WACKENHUT CORRECTIONS CORP - Form 10-K/A

Assets purchased under capital lease	\$ 346	\$ 91	\$ 76
	<u>          </u>	<u>          </u>	<u>          </u>
Investment in direct financing lease	\$	\$118,646	\$
	<u>          </u>	<u>          </u>	<u>          </u>

*The accompanying notes are an integral part of these consolidated financial statements.*

**Table of Contents**

Premier Custodial Group Limited

Notes to Consolidated Financial Statements

December 31, 2002, 2001 and 2000

**1. General**

Premier Custodial Group Limited and subsidiaries (the Company) is a 50-50 joint venture that is owned by Serco Investments Limited (Serco) and Wackenhut Corrections Corporation (UK) Limited (WCCUK), which is a wholly owned subsidiary of Wackenhut Corrections Corporation (WCC). WCC is a majority owned subsidiary of The Wackenhut Corporation (TWC). The Company operates in one industry segment that encompasses the management of prisoners and detainees on behalf of the Home Office of the United Kingdom (Home Office) and is involved in the design, construction, management and finance of prison and detention facilities, the provision of prison escort services and electronic monitoring services. The Company currently manages six correctional facilities, one immigration detention center, two court escort contracts and two electronic monitoring services contracts.

**2. Summary of Significant Accounting Policies**

**Basis of Financial Statement Presentation**

The consolidated financial statements include the accounts of the Company and its subsidiaries. The Company maintains its books and records according to accounting principles generally accepted in the United Kingdom and the Company's functional currency is the UK Pounds. These financial statements are presented in accordance with accounting principles generally accepted in the United States and have been translated from the functional currency to the US dollar. All significant intercompany transactions and balances between the Company and its subsidiaries have been eliminated in consolidation.

**Use of Estimates**

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The Company's significant estimates include allowance for doubtful accounts, construction cost estimates, employee compensation accruals and certain accrued expenses. While the Company believes that such estimates are fair when considered in conjunction with the consolidated financial statements taken as a whole, the actual amounts of such estimates, when known, will vary from these estimates.

**Table of Contents**

Premier Custodial Group Limited

Notes to Consolidated Financial Statements (continued)

**2. Summary of Significant Accounting Policies (continued)**

**Fair Value of Financial Instruments**

The carrying value of cash and cash equivalents, restricted cash, accounts receivable, accounts payable and accrued expenses approximate their fair value due to the short maturity of these items. The carrying value of the Company's long-term debt approximates fair value based on the variable interest rates on substantially all of the debt.

**Cash and Cash Equivalents**

The Company classifies as cash equivalents all interest-bearing deposits or investments with original maturities of three months or less. Certain amounts of the Company's cash and cash equivalents are restricted for debt service payments under the terms of the Company's credit agreements.

**Restricted Cash**

The Company's credit agreements require that the Company maintain a minimum level of cash that is restricted for use in debt service.

**Property and Equipment and Construction in Progress**

Property and equipment are stated at cost, less accumulated depreciation. Maintenance and repairs are expensed as incurred. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets. Leasehold improvements are amortized on a straight-line basis over the shorter of the useful life of the improvement or the term of the lease. At December 31, 2000, construction in progress represents assets under construction for the Moreton facility. During 2001, construction was completed. Interest is capitalized in connection with the construction of custodial facilities. Capitalized interest is recorded as part of the asset to which it relates and is amortized over the asset's estimated useful life. No amounts were capitalized during 2002. During 2001 and 2000, interest costs of approximately \$4.5 million and \$5.3 million were capitalized.

**Impairment of Long-lived Assets**

The Company reviews for impairment of long-lived assets to be held and used whenever events or changes in circumstances indicate that the carrying amount of such assets may not be fully recoverable. Determination of recoverability is based on an estimate of undiscounted future cash flows resulting from the use of the asset and its eventual disposition.

**Table of Contents**

Premier Custodial Group Limited

Notes to Consolidated Financial Statements (continued)

**2. Summary of Significant Accounting Policies (continued)**

Measurement of an impairment loss for long-lived assets that management expects to hold and use is based on the fair value of the asset. Long-lived assets to be disposed of are reported at the lower of carrying amount or fair value less costs to sell. Management has reviewed the Company's long-lived assets and determined that there are no events requiring impairment loss recognition.

**Goodwill**

Effective January 1, 2002, the Company adopted Statement of Financial Accounting Standards ( SFAS ) No. 142, Goodwill and Other Intangible Assets. As a result of adopting SFAS No. 142, the Company's goodwill is no longer amortized, but is subject to an annual impairment test. In accordance with SFAS No. 142, the Company ceased amortizing goodwill as of the beginning of 2002. The Company's goodwill at December 31, 2002 totaled \$0.9 million. SFAS No.142 requires that transitional impairment tests be performed at its adoption, and provides that resulting impairment losses for goodwill and other intangible assets with indefinite useful lives be reported as the effect of a change in accounting principle. There was no impairment of goodwill or other intangible assets as a result of adopting SFAS No. 142 or the annual impairment test. Excluding goodwill, the Company has no intangible assets deemed to have indefinite lives.

In September 1998, the Company purchased Geografix Limited for approximately \$2.6 million. Geografix Limited is a business that designs, assembles and maintains detainee monitoring equipment. The transaction was accounted for under the purchase method of accounting. The purchase resulted in \$2.6 million of goodwill which represents the excess of the price paid over the fair value of the net tangible and identifiable intangible assets acquired. Prior to the adoption of SFAS 142, the Company amortized goodwill on a straight-line basis over a five-year period. Accumulated amortization totaled approximately \$1.7 million and \$1.2 million at December 31, 2001 and 2000, respectively. Amortization expense was \$0.5 million and \$0.5 million in 2001 and 2000, respectively.

**Table of Contents**

## Premier Custodial Group Limited

## Notes to Consolidated Financial Statements (continued)

**2. Summary of Significant Accounting Policies (continued)****Goodwill (continued)**

The following table provides a reconciliation of reported net income for the year ended December 31, 2001 and 2000 to net income adjusted as if SFAS No. 142 had been applied as of the beginning of 2000:

	<u>2001</u>	<u>2000</u>
	(in thousands)	
Net income as reported	\$ 10,271	\$ 8,499
Goodwill amortization, net of taxes	364	364
Adjusted net income	<u>\$ 10,635</u>	<u>\$ 8,863</u>

**Revenue Recognition**

In accordance with SEC Staff Accounting Bulletin No. 101 and related interpretations, facility management and monitoring revenues are recognized as services are provided under management contracts based on a net rate per day per detainee place available at the facility or on a fixed monthly rate. The Company performs ongoing credit evaluations of its customers' financial condition. The Company maintains reserves for potential credit losses, and such losses traditionally have been within management's expectations. The Company defers revenue for amounts received in advance for undelivered services provided for in the facility management contracts. As of December 31, 2002, 2001, and 2000, these amounts totaled approximately \$6.0 million, \$3.6 million and \$1.9 million and are included in deferred revenue. The Company's contracts include provisions that require it to meet certain operational performance targets. The Company establishes provisions for estimated deductions based on the results of actual operational performance compared to the performance criteria. Revenue is presented net of allowances for penalties under the contracts that totaled approximately \$2.7 million, \$0.3 million and \$0.3 million for the years ended December 31, 2002, 2001 and 2000, respectively. The increase in allowances relates to the year ended December 31, 2002 and primarily relates to the Ashfield Facility (see Note 6).



**Table of Contents**

Premier Custodial Group Limited

Notes to Consolidated Financial Statements (continued)

**2. Summary of Significant Accounting Policies (continued)**

**Cost of Sales**

Cost of sales consists primarily of compensation and other personnel related costs, operational costs, inmate related expenses and medical expenses; these costs are recognized as incurred. The Company pays royalties to the previous owner of Geografix Limited based on the number of people monitored after the acquisition through 2004. Royalties totaled approximately \$0.9 million for each of the three years ended December 31, 2002 and are included as cost of sales. At December 31, 2002, the remaining contingent payments are approximately \$1.0 million.

**Income Taxes**

The Company accounts for income taxes in accordance with SFAS No. 109, Accounting for Income Taxes. Under this method, deferred income taxes are determined based on the estimated future tax effects of differences between the financial statement and tax bases of assets and liabilities given the provisions of enacted tax laws. Deferred income tax provisions and benefits are based on changes to the assets or liabilities from year to year. Valuation allowances are recorded related to deferred tax assets if their realization does not meet the more likely than not criteria.

**Direct Finance Leases**

The Company's investment in direct finance leases represents amounts receivable from the Home Office under long-term agreements resulting from the Company financing, designing and construction of custodial facilities. The terms of the agreements provide for payments to the Company over the term of the agreements and substantially all the risks and rewards associated with ownership of the property are retained by the Home Office upon completion of the contract. Minimum payments to be received over the term of the leases less unearned income are capitalized as the Company's investments in the leases. Unearned income is recognized as interest income over the term of the leases using the interest method. The facilities under these agreements with the Home Office include: Pucklechurch Custodial Services Limited, Medomsley Training Services Limited, Moreton Prison Services Limited, Lowdham Grange Prison Services Limited and Kilmarnock Prison Services Limited. Interest income related to the facilities totaled approximately \$34.8 million, \$25.9 million and \$21.4 million, for the years ended December 31, 2002, 2001, and 2000, respectively.

**Table of Contents**

Premier Custodial Group Limited

Notes to Consolidated Financial Statements (continued)

**2. Summary of Significant Accounting Policies (continued)**

**Debt Issuance Costs**

Debt issuance costs totaling approximately \$3.6 million, \$3.2 million and \$3.1 million at December 31, 2002, 2001 and 2000, respectively, are included in other assets in the consolidated balance sheets and are amortized into interest expense on a straight-line basis, which is not materially different than the interest method, over the term of the related debt.

**Employee Benefit Plans**

The Company is part of a multi-employer defined benefit plan for 15 director level employees. The pension cost for the plan is charged to expenses over the employee's terms of employment and contribution rates are actuarially determined. In addition, the Company operates two defined contribution plans for employees that are not members of the multi-employer benefit plan. The Company matches contributions of the employees up to a specified maximum amount.

**Comprehensive Income**

SFAS No. 130, Reporting Comprehensive Income requires companies to report all changes in equity in a financial statement for the period in which they are recognized, except those resulting from investment by owners and distributions to owners. The Company has disclosed Comprehensive Income, which encompasses net income, foreign currency translation adjustments and unrealized losses on derivative instruments in the Consolidated Statements of Shareholders' Equity and Comprehensive Income. The cumulative foreign currency translation adjustment as of December 31, 2002, 2001 and 2000 totaled approximately \$1.0 million, \$(1.8) million and \$(1.0) million, respectively.

**Concentration of Credit Risk**

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash and cash equivalents, restricted cash, trade accounts receivable, direct finance lease receivable, long-term debt and financial instruments used in hedging activities. The Company's cash management and investment policies restrict investments to low-risk, highly liquid securities, and the Company performs periodic evaluations of the credit standing of the financial institutions with which it deals. As of December 31, 2002, 2001 and 2000, management believes the Company's main concentration of credit risk related to

**Table of Contents**

Premier Custodial Group Limited

Notes to Consolidated Financial Statements (continued)

**2. Summary of Significant Accounting Policies (continued)**

the receivables under the contracts it operates for the Home Office which represented revenues of approximately \$134.2 million, \$104.4 million, and \$103.2 million for 2002, 2001 and 2000, respectively. Based on this concentration, these government agencies have a significant influence on the Company's cash flows and results of operations.

**Foreign Currency Translation**

The local currency of UK pounds is the Company's functional currency. The Company's financial statements have been converted to US dollars for the purposes of these financial statements. Assets and liabilities of the operations are translated at the exchange rates in effect on the balance sheet date and goodwill, certain other assets, and shareholders' equity are translated at historical rates. Income statement items are translated at the average exchange rates for the year. The impact of currency fluctuation is included in shareholders' equity as a component of accumulated other comprehensive income.

**Interest Rate Swaps**

In accordance with SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, and its related interpretations and amendments, the Company records derivatives as either assets or liabilities on the balance sheet and measures those instruments at fair value. For derivatives that are designed as and qualify as effective cash flow hedges, the portion of gain or loss on the derivative instrument effective at offsetting changes in the hedged item is reported as a component of accumulated other comprehensive income and reclassified into earnings when the hedged transaction affects earnings.

The Company formally documents all relationships between hedging instruments and hedge items, as well as its risk-management objective and strategy for undertaking various hedge transactions. The Company also assesses whether each derivative is highly effective in offsetting changes in the cash flows of the hedged item. Fluctuations in the value of the derivative instruments are generally offset by changes in the hedged item; however, if it is determined that a derivative is not highly effective as a hedge or if a derivative ceases to be a highly effective hedge, the Company will discontinue hedge accounting prospectively for the affected derivative.

**Table of Contents**

Premier Custodial Group Limited

Notes to Consolidated Financial Statements (continued)

**2. Summary of Significant Accounting Policies (continued)**

The Company has entered into interest rate swaps to fix the interest rate on its variable rate credit facility to rates ranging from 6.2% to 8.7% over the term of the debt. The adoption of SFAS No. 133 on January 1, 2001 resulted in a \$24.2 million reduction of shareholders' equity. During the years ended December 31, 2002 and 2001, the value of the swaps decreased by approximately \$11.9 million and \$1.2 million, respectively. The fair value of the swaps was a liability to the Company of approximately \$37.3 million and \$25.3 million at December 31, 2002 and 2001, respectively, and is reflected as other non-current liabilities in the accompanying consolidated balance sheets.

**Recent Accounting Pronouncements**

In June 2001, the Financial Accounting Standards Board ( FASB ) issued SFAS No. 143, Accounting for Asset Retirement Obligations. This standard requires companies to record the fair value of a liability for an asset retirement obligation in the period in which it is incurred. When the liability is initially recorded, the Company capitalizes a cost by increasing the carrying amount of the related long-lived asset. Over time, the liability is accreted to its present value each period, and the capitalized cost is depreciated over the useful life of the related asset. Upon settlement of the liability, the Company either settles the obligation for its recorded amount or incurs a gain or loss upon settlement. The standard is effective for fiscal years beginning after June 15, 2002, with earlier application encouraged. Management expects that the adoption of SFAS No. 143 will not have a material impact on the Company's financial position, results of operations or cash flows in the year of adoption.

In August 2001, the FASB issued SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. SFAS No. 144 is effective for fiscal years beginning after December 15, 2001. For long-lived assets to be held and used, SFAS No. 144 retains the existing requirements to (a) recognize an impairment loss only if the carrying amount of a long-lived asset is not recoverable from its undiscounted cash flows and (b) measure an impairment loss as the difference between the carrying amount and the fair value of the asset. SFAS No. 144 establishes one accounting model to be used for long-lived assets to be disposed of by sale and revises guidance for assets to be disposed of other than by sale. The adoption of SFAS No. 144 did not have an impact on the Company's financial position, results of operations or cash flows.

**Table of Contents**

Premier Custodial Group Limited

Notes to Consolidated Financial Statements (continued)

**2. Summary of Significant Accounting Policies (continued)**

**Recent Accounting Pronouncements (continued)**

In January 2003, the FASB issued FIN No. 46, Consolidation of Variable Interest Entities, which addresses consolidation by a business of variable interest entities in which it is the primary beneficiary. FIN No. 46 is effective immediately for certain disclosure requirements and variable interest entities created after January 1, 2003, and in the first fiscal year or interim period beginning after June 15, 2003 for all other variable interest entities. The Company is currently in the process of determining the effects, if any, on its financial position, results of operations and cash flows that will result from the adoption of FIN No. 46.

In November 2002, the FASB issued FASB Interpretation No. 45, Guarantors Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others, an Interpretation of FASB Statements No. 5, 57, and 107 and rescission of FASB Interpretation No. 34. FIN No. 45 elaborates on the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under certain guarantees that it has issued. It also clarifies that a guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. The initial recognition and initial measurement provisions shall be applied only on a prospective basis to guarantees issued or modified after December 31, 2002. The guarantor's previous accounting for guarantees issued prior to the date of FIN No. 45's initial application shall not be revised or restated to reflect the effect of the recognition and measurement provisions of FIN No. 45. The disclosure requirements are effective for financial statements of interim or annual periods ending after December 15, 2002. The Company implemented the disclosure requirements of FIN 45 as of December 31, 2002 and there was no material impact on its financial position, results of operations or cash flows as a result of this implementation.

**Table of Contents**

## Premier Custodial Group Limited

## Notes to Consolidated Financial Statements (continued)

**3. Property and Equipment**

Property and equipment consist of the following at December 31:

	Useful Life	2002	2001	2000
	(Years)	(In thousands)		
Leasehold improvements	2 to 40	\$ 619	\$ 600	\$ 527
Plant and machinery	3 to 5	1,374	1,151	821
Motor vehicles	4	1,512	1,512	1,512
Fixtures, tools and equipment	3 to 5	4,093	3,427	3,015
Monitoring equipment	2	6,342	3,784	3,143
Technical equipment	5	2,684	2,160	1,944
		<u>16,624</u>	<u>12,634</u>	<u>10,962</u>
Less-accumulated depreciation		(10,854)	(7,966)	(6,204)
		<u>\$ 5,770</u>	<u>\$ 4,668</u>	<u>\$ 4,758</u>

Depreciation expense totaled approximately \$2.8 million, \$1.5 million and \$2.3 million for the years ended December 31, 2002, 2001 and 2000, respectively, and included depreciation of assets under capital lease. The Company leases certain motor vehicles and office machines under capital lease arrangements. The cost of assets obtained under capital lease agreements was approximately \$1.9 million, \$1.4 million and \$1.4 million at December 31, 2002, 2001, and 2000, respectively. Accumulated depreciation on such assets was approximately \$1.2 million, \$0.8 million and \$0.5 million at December 31, 2002, 2001 and 2000, respectively. All amounts due under capital lease arrangements are due during 2003.

**Table of Contents**

## Premier Custodial Group Limited

## Notes to Consolidated Financial Statements (continued)

**4. Long-Term Debt**

Debt consists of the following (in thousands):

	<b>December 31</b>		
	<b>2002</b>	<b>2001</b>	<b>2000</b>
<b>Senior Debt</b>			
Pucklechurch Custodial Services Limited, variable interest at LIBOR plus an applicable margin (approximately 4.8% at December 31, 2002), payable in semi-annual installments through December 15, 2016	<b>\$ 48,126</b>	\$ 46,993	\$ 51,699
Medomsley Training Services Limited, variable interest at LIBOR plus an applicable margin (approximately 4.8% at December 31, 2002), payable in semi-annual installments through December 15, 2011	<b>14,047</b>	14,243	16,122
Moreton Prison Services Limited, variable interest at LIBOR plus an applicable margin (approximately 4.8% at December 31, 2002), payable in semi-annual installments through December 15, 2017	<b>116,513</b>	112,283	94,558
Lowdham Grange Prison Services Limited, variable interest at LIBOR plus an applicable margin (approximately 4.8% at December 31, 2002), payable in semi-annual installments through December 15, 2015	<b>40,306</b>	39,251	42,927
Kilmarnock Prison Services Limited, variable interest at LIBOR plus an applicable margin (approximately 4.8% at December 31, 2002), payable in semi-annual installments through December 15, 2016	<b>50,473</b>	49,256	53,664
<b>Subordinated Debt</b>			
Fixed interest at 13%, fixed principal payment dates between December 15, 2011 and December 15, 2017, secured by subordinated claims on the senior debt properties above	<b>27,519</b>	25,932	25,989

**Table of Contents**

## Premier Custodial Group Limited

## Notes to Consolidated Financial Statements (continued)

	<b>December 31</b>		
	<b>2002</b>	<b>2001</b>	<b>2000</b>
<b>Loans</b>			
Tranche A, variable interest at LIBOR plus 0.8% (approximately 4.8% at December 31, 2002), quarterly payments of \$0.6 with a balloon payment due July 4, 2003	<b>11,231</b>	10,151	10,452
Tranche B, variable interest at LIBOR plus 0.8% (approximately 4.8% at December 31, 2002) revolving facility draws available for periods ranging from one to six months and expiring on July 4, 2003	<b>1,293</b>	4,677	6,597
<b>Capital leases</b> Motor vehicle and office machine leases at varying interest rates	<b>636</b>	687	976
Total	<b>310,144</b>	303,473	302,984
Less: current portion	<b>(31,676)</b>	(22,291)	(22,078)
Long-term debt	<b>\$278,468</b>	\$281,182	\$280,906

The senior debt is secured by the property and assets of the related prison facilities. The terms of the senior debt require the Company to maintain restricted cash balances to meet debt service requirements and to meet certain financial and non-financial covenants.

The subordinated debt is held by WCCUK, Serco and a syndicate of banks. The subordinated debt bears fixed interest at 13%, payable semi-annually, with principal payment dates between December 15, 2011 and December 15, 2017.

The Tranche A and Tranche B credit facilities expire on July 4, 2003. On June 26, 2003, the Company obtained an extension of those credit facilities, at the Company's option, until January 4, 2004. Following the closing of the sale transaction of the 50% interest in the Company owned by WCCUK to Serco as described in Note 6, the Company expects to refinance the debt.



**Table of Contents**

## Premier Custodial Group Limited

## Notes to Consolidated Financial Statements (continued)

**4. Long-Term Debt (continued)**

The aggregate scheduled maturities of long-term debt are as follows (in thousands):

	<b>Amount</b>
Year ending December 31:	
2003	\$ 31,676
2004	17,554
2005	15,142
2006	14,748
2007	16,342
Thereafter	214,682
	<b>\$310,144</b>

**5. Investment in Direct Finance Leases**

The Company's investment in direct finance leases represents amounts receivable under long-term agreements resulting from the Company's financing, designing and construction of custodial facilities in the United Kingdom. The facilities under these agreements with the Home Office are Pucklechurch Custodial Services Limited, Medomsley Training Services Limited, Moreton Prison Services Limited, Lowdham Grange Prison Services Limited and Kilmarnock Prison Services.

The Company's net investment in direct finance leases consists of (in thousands):

	<b>December 31</b>		
	<b>2002</b>	<b>2001</b>	<b>2000</b>
Minimum amounts to be received	<b>\$ 630,820</b>	\$ 609,914	\$ 537,115
Unearned income	<b>(330,154)</b>	(330,919)	(368,243)
Net investment	<b>\$ 300,666</b>	\$ 278,995	168,872

As of December 31, 2002, 2001, and 2000, the current portion of the investment in direct finance leases in the amount of \$7.4 million, \$8.3 million, and \$2.2 million, respectively, is included in other current assets in the accompanying consolidated balance sheets.

**Table of Contents**

## Premier Custodial Group Limited

## Notes to Consolidated Financial Statements (continued)

**5. Investment in Direct Finance Leases (continued)**

The future minimum amounts to be received are as follows:

	<b>Amounts to be Received</b>
	<b>(In thousands)</b>
Year ending December 31:	
2003	\$ 42,015
2004	40,353
2005	38,533
2006	38,645
2007	39,237
Thereafter	432,037
	<b>\$ 630,820</b>

**6. Commitments and Contingencies****TWC Merger with Group 4 Falck**

On May 8, 2002, TWC consummated a merger (the Merger) with a wholly owned subsidiary of Group 4 Falck A/ S (Group 4 Falck), a Danish multinational security and correctional services company. As a result of the Merger, Group 4 Falck has become the indirect beneficial owner of 12 million shares of WCC common stock.

In the United Kingdom, the Merger has been reviewed by the Office of Fair Trade and was referred to the Competition Commission for further investigation. Many of the Company's contracts include a provision that makes the failure to obtain Home Office approval of a change in control an event of default. The Competition Commission completed its investigation and in a report published on October 22, 2002, approved the Merger without conditions. The Youth Justice Board and the Scottish Prison Service also approved the Merger. The Company is waiting for approval from The Immigration Service.

**Table of Contents**

Premier Custodial Group Limited

Notes to Consolidated Financial Statements (continued)

**6. Commitments and Contingencies (continued)**

As a result of the Merger, Serco claimed it had a right to acquire WCCUK's 50 percent interest in the Company. On May 8, 2003, Serco and WCCUK reached an agreement that WCCUK would sell its 50 percent interest in the Company to Serco in accordance with the terms of the Company's joint venture agreement, at a price equal to 90 percent of its fair market value, as determined by a panel of valuation experts. A purchase price of approximately \$80.0 million (subject to currency fluctuations and other closing modifications) has been determined by the valuation experts. As a result of the agreement, WCCUK has dismissed its lawsuit in the United Kingdom challenging Serco's claimed right to acquire the Company's interest in the joint venture as a result of the merger. WCCUK and Serco are negotiating to complete the timing of the sale and anticipate closing the sale in July 2003.

**Insurance**

The facility management contracts of the Company require specific insurance coverage and deductible levels, among other provisions. Although the Company has obtained the appropriate insurance coverage, the Company was, and remains, unable to achieve contractual compliance with respect to its seven custodial contracts for property and business interruption insurance since July 30, 2002. Due to the failure to meet the insurance requirements of the contracts, the Company is in technical breach of the operating contracts. This breach was due to the inability to obtain the specified deductible levels on commercially available terms in the worldwide insurance market. The Company has obtained waivers from the Home Office for the policy in place through April 29, 2003 and is in the process of obtaining the waivers for the current policy year. Under the terms of the operating contracts, if the parties disagree as to the availability of insurance on commercial terms in the worldwide insurance market, then either party may terminate the contract. If the Home Office determines that the specified insurance is available at commercial prices in the worldwide insurance market, the Company is required to procure such insurance provided it has sufficient financial resources, as defined in the agreement, or the Home Office may terminate the contracts. In the event the contracts are terminated, the Home Office is required to assume the outstanding senior debt related to the prisons. The Home Office has not indicated to the Company that it intends to terminate the contracts and management believes it is remote that the Home Office would terminate the contracts due to the breach. However, there can be no assurances that the contracts will not be terminated by the Home Office in the future. These five contracts represented approximately 70% of the Company's consolidated revenue for the year ended December 31, 2002.

**Table of Contents**

Premier Custodial Group Limited

Notes to Consolidated Financial Statements (continued)

**6. Commitments and Contingencies (continued)**

**Facilities**

The Company operates the 400-bed Young Offender and Juvenile Institution at Ashfield (the Ashfield Facility). On May 23, 2002, the UK Prison Service assumed operational control of the Ashfield Facility based upon the Prison Service's concern over safety and control. Control of the Ashfield Facility was restored to the Company on October 14, 2002. Under the terms of the Company's contract, the Company is paid for operational services on the basis of Available Prisoner Places. Prior to assuming operational control, the Prison Service paid the Company based upon 400 Available Prisoner Places. From May 23, 2002 through October 23, 2002, the Prison Service paid the Company only for the number of beds actually occupied, which averaged approximately 200 during this period. As a result, the Company's revenues for the Ashfield Facility were reduced by approximately half during this period. In addition, the Company incurred costs in additional resources and staff brought in to address the operational issues at Ashfield. The Company provided the Prison Service with a comprehensive plan for addressing all operational issues at the Ashfield Facility, which was approved by the Authority and implemented by the Company. From October 24, 2002 until December 2, 2002, the Prison Service paid the Company full revenues under the contract. From December 3, 2002 through February 28, 2003, the prison service again paid the Company only for beds occupied. On January 30, 2003, the Company notified the Prison Service that it considered all operational issues identified by the Prison Service corrected and expected full payment to be restored effective from January 30, 2003. The Prison Service has confirmed that full revenues were restored effective March 2003.

The Company's contracts include provisions that require the Company to meet certain operational and performance targets. If these targets are not achieved, the Company may be subject to revenue deductions including, in extreme cases, termination of the contracts.

**Table of Contents**

## Premier Custodial Group Limited

## Notes to Consolidated Financial Statements (continued)

**6. Commitments and Contingencies (continued)****Guarantees by Shareholders**

In connection with the facility management contracts, the two shareholders have provided an operational guarantee on behalf of the Company. The guarantee ensures that the two shareholders will provide operational support to ensure continued service under the contracts.

**Operating Leases**

The Company leases office space, computers and vehicles under non-cancelable operating leases expiring between 2003 and 2012. Operating lease rentals costs and income are recognized in equal amounts on a straight-line basis over the lease term.

The future minimum commitments under these leases are as follows:

	<b>Annual Rental</b>
	<b>(In thousands)</b>
Fiscal year:	
2003	\$2,602
2004	1,418
2005	821
2006	705
2007	666
Thereafter	2,865
	<u>          </u>
	\$9,077
	<u>          </u>

Rental expense was approximately \$5.7 million, \$4.7 million and \$5.1 million for 2002, 2001 and 2000, respectively.

**Litigation, Claims and Assessments**

The Company is subject to legal proceedings and claims that arise in the ordinary course of its business. In the opinion of management, the outcome of these matters will not have a significant effect on the Company's consolidated financial position or results of operations.

**Table of Contents**

## Premier Custodial Group Limited

## Notes to Consolidated Financial Statements (continued)

**7. Income Taxes**

The provision for income taxes in the consolidated statements of income consists of the following components for the years ended December 31, 2002, 2001, 2000 (in thousands):

	2002	2001	2000
Current	\$2,833	\$3,147	\$3,263
Deferred	4,454	2,126	4,308
	<u>\$7,287</u>	<u>\$5,273</u>	<u>\$7,571</u>

The tax provision differs from the statutory United Kingdom Corporation tax at 30% due to the impact of permanent tax items. Deferred income tax liabilities primarily represent the temporary differences arising from the Company's investment in direct financing leases. There were no significant deferred tax assets in 2002, 2001 and 2000.

**8. Employee Benefit Plans**

Certain employees of the Company are members of the Serco Pension and Life Assurance Scheme benefit plan. This plan is a multi-employer pre-funded defined benefit plan. Contributions are made based on the advice of an actuary. The pension charges were approximately \$0.3 million, \$0.2 million and \$0.2 million for the years ended December 31, 2002, 2001 and 2000, respectively.

Certain employees are offered membership to the Company's two defined contribution benefit plans under the Premier Prison Services Limited Group Personal Pension Scheme. Through September 2001, the plan was administered by Portfolio Asset Management Limited. After September 2001, the plan is administered by Legal and General. The Company will match employee contributions up to a maximum level. The charges related to the plans were approximately \$0.3 million, \$0.4 million and \$0.3 million for the years ended December 31, 2002, 2001 and 2000, respectively.

**Table of Contents**

## Premier Custodial Group Limited

## Notes to Consolidated Financial Statements (continued)

**9. Related Party Transactions**

Related party transactions occur in the normal course of business between the Company and its two shareholders, WCCUK and Serco and primarily relate to the recovery of expenses incurred on the Company's behalf. In 2002, 2001 and 2000, expenses incurred by the shareholders and recharged to the Company totaled approximately \$0.1 million for each year. Amounts receivable by shareholders for these related party transactions totaled approximately \$0.1 million and \$0.1 million at December 31, 2002 and 2001 and none at December 31, 2000.

Included in subordinated debt of the Company are the following loans from Serco and WCCUK. The loans bear fixed interest at 13% payable semi-annually with principal payment dates between December 15, 2011 and December 15, 2017. Interest payable to Serco and WCCUK was approximately \$0.6 million, \$0.5 million and \$0.3 million as of December 31, 2002, 2001 and 2000, respectively.

	2002	2001	2000
	—————	—————	—————
	(in thousands)		
Serco	\$4,755	\$4,333	\$4,034
WCCUK	4,755	4,333	4,034
	—————	—————	—————
	<b>\$9,510</b>	<b>\$8,666</b>	<b>\$8,068</b>
	—————	—————	—————

In December of 2000 and 2001, the Company made short-term loans to Serco in the amount of approximately \$7 million. Such amounts were interest bearing at a base lending rate plus 2% and were repaid in January of 2001 and 2002, respectively.

**Table of Contents**

**PART IV**

**Item 15. Exhibits, Financial Statement Schedules, and Reports on Form 8-K**

(a) 1. *Financial Statements.*

**Wackenhut Corrections Corporation**

Report of Independent Certified Public Accountants Page 28

Report of Independent Certified Public Accountants Page 29

Consolidated Balance Sheets December 29, 2002 and December 30, 2001 Page 4

Consolidated Statements of Income Fiscal years ended December 29, 2002, December 30, 2001 and December 31, 2000 Page 3

Consolidated Statements of Cash Flows Fiscal years ended December 29, 2002, December 30, 2001 and December 31, 2000 Page 5

Consolidated Statements of Shareholders Equity and Comprehensive Income Fiscal years ended December 29, 2002,  
December 30, 2001 and December 31, 2000 Page 6

Notes to Consolidated Financial Statements Pages 7 through 27

**Premier Custodial Group Limited**

Report of Independent Auditors Page 33

Consolidated Balance Sheets December 31, 2002, December 31, 2001 and December 31, 2000 Page 34

Consolidated Statements of Income Fiscal years ended December 31, 2002, December 31, 2001 and December 31, 2000 Page 35

Consolidated Statements of Cash Flows Fiscal years ended December 31, 2002, December 31, 2001 and December 31, 2000 Page 37

Consolidated Statements of Shareholders Equity and Comprehensive Income (loss) Fiscal years ended December 31, 2002,  
December 31, 2001 and December 31, 2000 Page 36

Notes to Consolidated Financial Statements Pages 38 through 56

2. *Financial Statement Schedules.*



**Table of Contents****Wackenhut Corrections Corporation**

Schedule II Valuation and Qualifying Accounts Page 62

All other schedules specified in the accounting regulations of the Securities and Exchange Commission have been omitted because they are either inapplicable or not required.

3. Exhibits. The following exhibits are filed as part of this Form 10-K/A-2:

Exhibit Number	Description
3.1**	Amended and Restated Articles of Incorporation of Wackenhut Corrections Corporation, dated May 16, 1994.
3.2**	Bylaws of Wackenhut Corrections Corporation.
4.1	Credit Agreement, dated December 12, 2002, by and among Wackenhut Corrections Corporation, Wachovia Bank, National Association, as Administrative Agent, BNP Paribas, as Syndication Agent, and the lenders who are, or may from time to time become, a party thereto (incorporated herein by reference to exhibit of the same number filed in Wackenhut Corrections Corporation's report on Form 8-K, dated December 27, 2002).
4.2*	First Amendment to Credit Agreement, dated January 10, 2003, by and among Wackenhut Corrections Corporation, Wachovia Bank, National Association, as Administrative Agent, and BNP Paribas, as Syndication Agent.
10.1 **	Wackenhut Corrections Corporation Stock Option Plan.
10.2 **	Wackenhut Corrections Corporation 1994 Stock Option Plan.
10.3 **	Form of Indemnification Agreement between Wackenhut Corrections Corporation and its Officers and Directors.
10.4 ***	Wackenhut Corrections Corporation Senior Officer Retirement Plan.
10.5 ***	Wackenhut Corrections Corporation Director Deferral Plan.
10.6 ***	Wackenhut Corrections Corporation Senior Officer Incentive Plan.
10.7	Lease Agreement, effective as of January 3, 1994, between Wackenhut Corrections Corporation and The Wackenhut Corporation (incorporated by reference to Exhibit 10.5 of Wackenhut Corrections Corporation's Registration Statement on Form S-1, as amended, Registration Number 33-79264).
10.8*	Wackenhut Corrections Corporation Nonemployee Director Stock Option Plan, as amended October 29, 1996.
10.9****	Form of Master Agreement to Lease between CPT Operating Partnership L.P. and Wackenhut Corrections Corporation; Form of Lease Agreement between CPT Operating Partnership L.P. and Wackenhut Corrections Corporation; Form Right to Purchase Agreement between Wackenhut Corrections Corporation and CPT Operating Partnership L.P.; and, Form of Option Agreement between Wackenhut Corrections Corporation and CPT Operating Partnership L.P.
10.10	Wackenhut Corrections Corporation 1999 Stock Option Plan (incorporated by reference to Exhibit 10.12 of Wackenhut Corrections Corporation's report on Form 10-K, dated March 30, 2000).
10.11	

## Edgar Filing: WACKENHUT CORRECTIONS CORP - Form 10-K/A

- Senior Officer Retirement Agreement (incorporated by reference to Exhibit 10.1 of Wackenhut Corrections Corporation's report on Form 10-Q, dated August 10, 2001).
- 10.12 Executive Employment Agreement, dated March 7, 2002, between Wackenhut Corrections Corporation and Dr. George C. Zoley (incorporated herein by reference to Exhibit 10.15 filed in Wackenhut Corrections Corporation's report on Form 10-Q, dated May 15, 2002).
- 10.13 Executive Employment Agreement, dated March 7, 2002, between Wackenhut Corrections Corporation and Wayne H. Calabrese (incorporated herein by reference to Exhibit 10.16 filed in Wackenhut Corrections Corporation's report on Form 10-Q, dated May 15, 2002).
- 10.14 Executive Employment Agreement, dated March 7, 2002, between Wackenhut Corrections Corporation and John G. O'Rourke (incorporated herein by reference to Exhibit 10.17 filed in Wackenhut Corrections Corporation's report on Form 10-Q, dated May 15, 2002).

**Table of Contents**

Exhibit Number	Description
10.15	Executive Retirement Agreement, dated March 7, 2002, between Wackenhut Corrections Corporation and Dr. George C. Zoley (incorporated herein by reference to Exhibit 10.18 filed in Wackenhut Corrections Corporation's report on Form 10-Q, dated May 15, 2002).
10.16	Executive Retirement Agreement, dated March 7, 2002, between Wackenhut Corrections Corporation and Wayne H. Calabrese (incorporated herein by reference to Exhibit 10.19 filed in Wackenhut Corrections Corporation's report on Form 10-Q, dated May 15, 2002).
10.17	Executive Retirement Agreement, dated March 7, 2002, between Wackenhut Corrections Corporation and John G. O'Rourke (incorporated herein by reference to Exhibit 10.20 filed in Wackenhut Corrections Corporation's report on Form 10-Q, dated May 15, 2002).
10.18*	Amended Executive Retirement Agreement, dated January 17, 2003, by and between Wackenhut Corrections Corporation and George C. Zoley.
10.19*	Amended Executive Retirement Agreement, dated January 17, 2003, by and between Wackenhut Corrections Corporation and Wayne H. Calabrese.
10.20*	Amended Executive Retirement Agreement, dated January 17, 2003, by and between Wackenhut Corrections Corporation and John G. O'Rourke.
10.21	Agreement, dated as of March 8, 2002, by and among Group 4 Falck A/S, Wackenhut Corrections Corporation and The Wackenhut Corporation (incorporated by reference to Exhibit 10.1 in Wackenhut Corrections Corporation's Form 8-K, dated March 8, 2002).
10.22*	Office Lease, dated September 12, 2002, by and between Wackenhut Corrections Corporation and Canpro Investments Ltd.
10.23*	Services Agreement, dated as of October 28, 2002, between Wackenhut Corrections Corporation and The Wackenhut Corporation.
10.24	Share Purchase Agreement, dated May 1, 2003, among The Wackenhut Corporation, Tuhnekaw, Inc., Group 4 Falck A/S and Wackenhut Corrections Corporation (incorporated herein by reference to Exhibit 10.1 filed in Wackenhut Corrections Corporation's report on Form 10-Q, dated March 30, 2003).
21.1*	Subsidiaries of Wackenhut Corrections Corporation.
23.1	Consent of Independent Certified Public Accountants.
23.2	Consent of Independent Auditors.
24.1*	Powers of Attorney.
31.1	CEO Certification Pursuant to Section 302 of the Sarbanes-Oxley Act.
31.2	CFO Certification Pursuant to Section 302 of the Sarbanes-Oxley Act.
32.1	CEO Certification Pursuant to Section 906 of the Sarbanes-Oxley Act.
32.2	CFO Certification Pursuant to Section 906 of the Sarbanes-Oxley Act.

\* Previously filed with this report.

\*\*

## Edgar Filing: WACKENHUT CORRECTIONS CORP - Form 10-K/A

Incorporated herein by reference to exhibit of the same number filed in Wackenhut Corrections Corporation's Registration Statement, as amended, on Form S-1 (Registration Number 33-79264).

\*\*\* Incorporated herein by reference to exhibit of the same number filed in Wackenhut Corrections Corporation's Registration Statement, as amended, on Form S-1 (Registration Number 33-80785).

\*\*\*\* Incorporated by reference to Exhibits 10.2, 10.3, 10.4, and 10.5 of Wackenhut Corrections Corporation's Registration Statement on Form S-3 (Registration Number 333-46681).

Management contract or compensatory plan, contract or agreement as defined in Item 402(a)(3) of Regulation S-K.

(b) *Reports on Form 8-K.* Wackenhut Corrections Corporation filed a Form 8-K, Item 2, on December 27, 2002.

**Table of Contents**

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Company has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

WACKENHUT CORRECTIONS CORPORATION

Date: November 10, 2003

/s/ JOHN G. O ROURKE

\_\_\_\_\_  
 John G. O Rourke  
*Senior Vice President of Finance and  
 Chief Financial Officer*

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Company and in the capacities and on the dates indicated.

Signature	Title	Date
_____ /s/ * George C. Zoley	Chairman of the Board and Chief Executive Officer (principal executive officer)	November 10, 2003
_____ /s/ JOHN G. O ROURKE John G. O Rourke	Senior Vice President of Finance and Chief Financial Officer (principal financial officer)	November 10, 2003
_____ /s/ BRIAN R. EVANS Brian R. Evans	Vice President Accounting, Chief Accounting Officer and Controller (principal accounting officer)	November 10, 2003
_____ /s/ * Wayne H. Calabrese	Vice Chairman of the Board and Director	November 10, 2003
_____ /s/ * Norman A. Carlson	Director	November 10, 2003

Edgar Filing: WACKENHUT CORRECTIONS CORP - Form 10-K/A

/s/ \* Director November 10, 2003  

---

Benjamin R. Civiletti

/s/ \* Director November 10, 2003  

---

Anne N. Foreman

**Table of Contents**

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ *</u> G. Fred DiBona, Jr.	Director	November 10, 2003
<u>/s/ *</u> Richard H. Glanton	Director	November 10, 2003
<u>* By /s/ JOHN G. O ROURKE</u> John G. O Rourke Attorney-in-fact		

Table of Contents

## SCHEDULE II

## WACKENHUT CORRECTIONS CORPORATION

## VALUATION AND QUALIFYING ACCOUNTS

For the Fiscal Years Ended December 29, 2002, December 30, 2001, and December 31, 2000

Description	Balance at Beginning of Period	Charged to Cost and Expenses	Charged to Other Accounts	Deductions, Actual Charge-Offs	Balance at End of Period
(In thousands)					
YEAR ENDED DECEMBER 29, 2002:					
Allowance for doubtful accounts	\$2,557	\$2,368	\$	\$(3,281)	\$1,644
YEAR ENDED DECEMBER 30, 2001:					
Allowance for doubtful accounts	\$1,262	\$3,636	\$	\$(2,341)	\$2,557
YEAR ENDED DECEMBER 31, 2000:					
Allowance for doubtful accounts	\$1,499	\$1,755	\$	\$(1,992)	\$1,262



**Table of Contents****EXHIBIT INDEX**

<b>Exhibit Number</b>	<b>Description</b>
3.1**	Amended and Restated Articles of Incorporation of Wackenhut Corrections Corporation, dated May 16, 1994.
3.2**	Bylaws of Wackenhut Corrections Corporation.
4.1	Credit Agreement, dated December 12, 2002, by and among Wackenhut Corrections Corporation, Wachovia Bank, National Association, as Administrative Agent, BNP Paribas, as Syndication Agent, and the lenders who are, or may from time to time become, a party thereto (incorporated herein by reference to exhibit of the same number filed in Wackenhut Corrections Corporation's report on Form 8-K, dated December 27, 2002).
4.2*	First Amendment to Credit Agreement, dated January 10, 2003, by and among Wackenhut Corrections Corporation, Wachovia Bank, National Association, as Administrative Agent, and BNP Paribas, as Syndication Agent.
10.1 **	Wackenhut Corrections Corporation Stock Option Plan.
10.2 **	Wackenhut Corrections Corporation 1994 Stock Option Plan.
10.3 **	Form of Indemnification Agreement between Wackenhut Corrections Corporation and its Officers and Directors.
10.4 ***	Wackenhut Corrections Corporation Senior Officer Retirement Plan.
10.5 ***	Wackenhut Corrections Corporation Director Deferral Plan.
10.6 ***	Wackenhut Corrections Corporation Senior Officer Incentive Plan.
10.7	Lease Agreement, effective as of January 3, 1994, between Wackenhut Corrections Corporation and The Wackenhut Corporation (incorporated by reference to Exhibit 10.5 of Wackenhut Corrections Corporation's Registration Statement on Form S-1, as amended, Registration Number 33-79264).
10.8*	Wackenhut Corrections Corporation Nonemployee Director Stock Option Plan, as amended October 29, 1996.
10.9****	Form of Master Agreement to Lease between CPT Operating Partnership L.P. and Wackenhut Corrections Corporation; Form of Lease Agreement between CPT Operating Partnership L.P. and Wackenhut Corrections Corporation; Form Right to Purchase Agreement between Wackenhut Corrections Corporation and CPT Operating Partnership L.P.; and, Form of Option Agreement between Wackenhut Corrections Corporation and CPT Operating Partnership L.P.
10.10	Wackenhut Corrections Corporation 1999 Stock Option Plan (incorporated by reference to Exhibit 10.12 of Wackenhut Corrections Corporation's report on Form 10-K, dated March 30, 2000).
10.11	Senior Officer Retirement Agreement (incorporated by reference to Exhibit 10.1 of Wackenhut Corrections Corporation's report on Form 10-Q, dated August 10, 2001).
10.12	Executive Employment Agreement, dated March 7, 2002, between Wackenhut Corrections Corporation and Dr. George C. Zoley (incorporated herein by reference to Exhibit 10.15 filed in Wackenhut Corrections Corporation's report on Form 10-Q, dated May 15, 2002).
10.13	Executive Employment Agreement, dated March 7, 2002, between Wackenhut Corrections Corporation and Wayne H. Calabrese (incorporated herein by reference to Exhibit 10.16 filed in Wackenhut Corrections Corporation's report on Form 10-Q, dated May 15, 2002).
10.14	Executive Employment Agreement, dated March 7, 2002, between Wackenhut Corrections Corporation and John G. O'Rourke (incorporated herein by reference to Exhibit 10.17 filed in Wackenhut Corrections Corporation's report on Form 10-Q, dated May 15, 2002).
10.15	Executive Retirement Agreement, dated March 7, 2002, between Wackenhut Corrections Corporation and Dr. George C. Zoley (incorporated herein by reference to Exhibit 10.18 filed in Wackenhut Corrections Corporation's report on

Edgar Filing: WACKENHUT CORRECTIONS CORP - Form 10-K/A

- 10.16 Form 10-Q, dated May 15, 2002).  
Executive Retirement Agreement, dated March 7, 2002, between Wackenhut  
Corrections Corporation and Wayne H. Calabrese (incorporated herein by  
reference to Exhibit 10.19 filed in Wackenhut Corrections Corporation's report on  
Form 10-Q, dated May 15, 2002).
- 10.17 Executive Retirement Agreement, dated March 7, 2002, between Wackenhut  
Corrections Corporation and John G. O'Rourke (incorporated herein by reference  
to Exhibit 10.20 filed in Wackenhut Corrections Corporation's report on  
Form 10-Q, dated May 15, 2002).

**Table of Contents**

Exhibit Number	Description
10.18*	Amended Executive Retirement Agreement, dated January 17, 2003, by and between Wackenhut Corrections Corporation and George C. Zoley.
10.19*	Amended Executive Retirement Agreement, dated January 17, 2003, by and between Wackenhut Corrections Corporation and Wayne H. Calabrese.
10.20*	Amended Executive Retirement Agreement, dated January 17, 2003, by and between Wackenhut Corrections Corporation and John G. O'Rourke.
10.21	Agreement, dated as of March 8, 2002, by and among Group 4 Falck A/S, Wackenhut Corrections Corporation and The Wackenhut Corporation (incorporated by reference to Exhibit 10.1 in Wackenhut Corrections Corporation's Form 8-K, dated March 8, 2002).
10.22*	Office Lease, dated September 12, 2002, by and between Wackenhut Corrections Corporation and Canpro Investments Ltd.
10.23*	Services Agreement, dated as of October 28, 2002, between Wackenhut Corrections Corporation and The Wackenhut Corporation.
10.24	Share Purchase Agreement, dated May 1, 2003, among The Wackenhut Corporation, Tuhnekaw, Inc., Group 4 Falck A/S and Wackenhut Corrections Corporation (incorporated herein by reference to Exhibit 10.1 filed in Wackenhut Corrections Corporation's report on Form 10-Q, dated March 30, 2003).
21.1*	Subsidiaries of Wackenhut Corrections Corporation.
23.1	Consent of Independent Certified Public Accountants.
23.2	Consent of Independent Auditors.
24.1*	Powers of Attorney.
31.1	CEO Certification Pursuant to Section 302 of the Sarbanes-Oxley Act.
31.2	CFO Certification Pursuant to Section 302 of the Sarbanes-Oxley Act.
32.1	CEO Certification Pursuant to Section 906 of the Sarbanes-Oxley Act.
32.2	CFO Certification Pursuant to Section 906 of the Sarbanes-Oxley Act.
<hr/>	
*	Previously filed with this report.
**	Incorporated herein by reference to exhibit of the same number filed in Wackenhut Corrections Corporation's Registration Statement, as amended, on Form S-1 (Registration Number 33-79264).
***	Incorporated herein by reference to exhibit of the same number filed in Wackenhut Corrections Corporation's Registration Statement, as amended, on Form S-1 (Registration Number 33-80785).
****	Incorporated by reference to Exhibits 10.2, 10.3, 10.4, and 10.5 of Wackenhut Corrections Corporation's Registration Statement on Form S-3 (Registration Number 333-46681).
	Management contract or compensatory plan, contract or agreement as defined in Item 402(a)(3) of Regulation S-K.