CORRECTIONS CORP OF AMERICA
Form 10-K
February 24, 2010

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-K

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2009
OR

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
Commission file number: 001-16109
CORRECTIONS CORPORATION OF AMERICA
(Exact name of registrant as specified in its charter)

MARYLAND	**62-1763875**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

10 BURTON HILLS BLVD., NASHVILLE, TENNESSEE 37215
(Address and zip code of principal executive office)
REGISTRANT S TELEPHONE NUMBER, INCLUDING AREA CODE: (615) 263-3000
SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

Title of each class	Name of each exchange on which registered
Common Stock, $.01 par value per share	New York Stock Exchange

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT: NONE

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No o

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15 (d) of the Act. Yes o No x

Indicate by 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 subject to such filing requirements for the past 90 days. Yes x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes o No o

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 the 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. o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer þ	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act.). Yes o No x
The aggregate market value of the shares of the registrant s Common Stock held by non-affiliates was approximately $1,886,384,426 as of June 30, 2009, based on the closing price of such shares on the New York Stock Exchange on that day. The number of shares of the registrant s Common Stock outstanding on February 18, 2010 was 115,985,414.

DOCUMENTS INCORPORATED BY REFERENCE:

Portions of the registrant s definitive Proxy Statement for the 2010 Annual Meeting of Stockholders, currently scheduled to be held on May 13, 2010, are incorporated by reference into Part III of this Annual Report on Form 10-K.

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FORM 10-K
For the fiscal year ended December 31, 2009
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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

This annual report on Form 10-K contains statements that are forward-looking statements as defined within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements give our current expectations of forecasts of future events. All statements other than statements of current or historical fact contained in this annual report, including statements regarding our future financial position, business strategy, budgets, projected costs, and plans and objectives of management for future operations, are forward-looking statements. The words anticipate, believe, continue, estimate, expect, intend, may, plan, projects, will, and similar expre to us, are intended to identify forward-looking statements. These statements are based on our current plans and actual future activities, and our results of operations may be materially different from those set forth in the forward-looking statements. In particular these include, among other things, statements relating to:

- general economic and market conditions, including the impact governmental budgets can have on our per diem rates and occupancy;

- fluctuations in our operating results because of, among other things, changes in occupancy levels, competition, increases in costs of operations, fluctuations in interest rates and risks of operations;

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

- our ability to obtain and maintain correctional facility management contracts, including as the result of sufficient governmental appropriations, inmate disturbances, and the timing of the opening of new facilities and the commencement of new management contracts as well as our ability to utilize current available beds and new capacity as development and expansion projects are completed;

- increases in costs to develop or expand correctional facilities that exceed original estimates, or the inability to complete such projects on schedule as a result of various factors, many of which are beyond our control, such as weather, labor conditions, and material shortages, resulting in increased construction costs;

- changes in government policy and in legislation and regulation of the corrections and detention industry that adversely affect our business including, but not limited to, judicial challenges regarding the transfer of California inmates to out-of-state private correctional facilities; and

- the availability of debt and equity financing on terms that are favorable to us.

Any or all of our forward-looking statements in this Annual Report may turn out to be inaccurate. We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends that we believe may affect our financial condition, results of operations, business strategy and financial needs. They can be affected by inaccurate assumptions we might make or by known or unknown risks, uncertainties and assumptions, including the risks, uncertainties and assumptions described in Risk Factors.

In light of these risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this annual report may not occur and actual results could differ materially from those

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anticipated or implied in the forward-looking statements. When you consider these forward-looking statements, you should keep in mind the risk factors and other cautionary statements in this annual report, including in Management s Discussion and Analysis of Financial Condition and Results of Operations and Business.

Our forward-looking statements speak only as of the date made. We undertake no obligation to publicly update or revise forward-looking statements, whether as a result of new information, future events or otherwise. All subsequent written and oral forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by the cautionary statements contained in this annual report.

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PART I.

ITEM 1. BUSINESS.

Overview

We are the nation s largest owner and operator of privatized correctional and detention facilities and one of the largest prison operators in the United States behind only the federal government and three states. We currently operate 65 correctional and detention facilities, including 44 facilities that we own, with a total design capacity of approximately 87,000 beds in 19 states and the District of Columbia. We are also constructing an additional 1,072-bed correctional facility under a contract awarded by the Office of Federal Detention Trustee (OFDT) in Pahrump, Nevada, which is currently expected to be completed during the third quarter of 2010. We also own two additional correctional facilities that we lease to third-party operators.

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

Our website address is www.correctionscorp.com. We make our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to those reports under the Securities Exchange Act of 1934, as amended (the Exchange Act), available on our website, free of charge, as soon as reasonably practicable after these reports are filed with or furnished to the Securities and Exchange Commission (the SEC). Information contained on our website is not part of this report.

Operations

Management and Operation of Correctional and Detention Facilities

Our customers consist of federal, state, and local correctional and detention authorities. For the years ended December 31, 2009, 2008, and 2007, federal correctional and detention authorities represented 39%, 40%, and 41%, respectively, of our total revenue. Federal correctional and detention authorities primarily consist of the Federal Bureau of Prisons, or the BOP, the United States Marshals Service, or the USMS, and the U.S. Immigration and Customs Enforcement, or ICE.

Our management services contracts typically have terms of three to five years and contain multiple renewal options. Most of our facility contracts also contain clauses that allow the government agency to terminate the contract at any time without cause, and our contracts are generally subject to annual or bi-annual legislative appropriations of funds. We are compensated for operating and managing facilities at an inmate per diem rate based upon actual or minimum guaranteed occupancy levels. Occupancy rates for a particular facility are typically low when first opened or immediately following an expansion. However, beyond the start-up period, which typically ranges from 90 to 180 days, the occupancy rate tends to stabilize. For the years 2009, 2008, and 2007, the average compensated occupancy of our facilities, based on rated capacity, was 90.7%, 95.5%, and 98.2%, respectively, for all of the facilities we owned or managed, exclusive of facilities where operations have been discontinued.

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As of December 31, 2009, we had approximately 9,900 unoccupied beds in inventory at facilities that had availability of 100 or more beds, and almost 2,600 additional beds under development. Of those, 6,000 beds are under guaranteed contracts with existing customers, leaving us with 6,500 beds available. Although the demand for prison beds in the short term has been, and could continue to be, affected by the severe budget challenges many of our customers currently face, these challenges put further pressure on our customers ability to construct new prison beds of their own, which we believe could result in further reliance on the private sector for providing the capacity we believe our customers will need in the long term.

Operating Procedures

Pursuant to the terms of our management contracts, we are responsible for the overall operations of our facilities, including staff recruitment, general administration of the facilities, facility maintenance, security, and supervision of the offenders. We are required by our contracts to maintain certain levels of insurance coverage for general liability, workers compensation, vehicle liability, and property loss or damage. We are also required to indemnify the contracting agencies for claims and costs arising out of our operations and, in certain cases, to maintain performance bonds and other collateral requirements. Approximately 91% of the facilities we operated at December 31, 2009 were accredited by the American Correctional Association Commission on Accreditation. The American Correctional Association, or ACA, is an independent organization comprised of corrections professionals that establish accreditation standards for correctional and detention institutions.

We provide a variety of rehabilitative and educational programs at our facilities. Inmates at most facilities we manage may receive basic education through academic programs designed to improve literacy levels and the opportunity to acquire GED certificates. We also offer vocational training to inmates who lack marketable job skills. Our craft vocational training programs are accredited by the National Center for Construction Education and Research. This organization provides training curriculum and establishes industry standards for over 4,000 construction and trade organizations in the United States and several foreign countries. In addition, we offer life skills transition-planning programs that provide inmates with job search skills, health education, financial responsibility training, parenting training, and other skills associated with becoming productive citizens. At many of our facilities, we also offer counseling, education and/or treatment to inmates with alcohol and drug abuse problems through our Strategies for Change and Residential Drug Addictions Treatment Program, or RDAP. Equally significant, we offer cognitive behavioral programs aimed at changing the anti-social attitudes and behaviors of offenders, and faith-based and religious programs that offer all offenders the opportunity to practice their spiritual beliefs. These programs incorporate the use of thousands of volunteers, along with our staff, that assist in providing guidance, direction, and post-incarceration services to offenders. We believe these programs help reduce recidivism.

We operate our facilities in accordance with both company and facility-specific policies and procedures. The policies and procedures reflect the high standards generated by a number of sources, including the ACA, the Joint Commission on Accreditation of Healthcare Organizations, the National Commission on Correctional Healthcare, the Occupational Safety and Health Administration, federal, state, and local government guidelines, established correctional procedures, and company-wide policies and procedures that may exceed these guidelines. Outside agency standards, such as those established by the ACA, provide us with the industry s most widely accepted operational guidelines. Our facilities not only operate under these established standards (we have sought and received accreditation for 59 of the facilities we operated as of December 31, 2009) but are consistently challenged by management to exceed these standards. This challenge is presented, in large part, through an extensive, comprehensive Quality Assurance Program. We intend to apply for ACA accreditation for all of our eligible facilities that are not currently accredited where it is economically feasible to complete the 18-24 month accreditation process.

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Our Quality Assurance Department independently operates under the auspices of, and reports directly to, the Company s Office of General Counsel. The Quality Assurance Department consists of two major sections. The first is the Research and Data Analysis Section, which collects and analyzes performance metrics across multiple databases. Through rigorous reporting and analyses of comprehensive, comparative statistics across disciplines, divisions, business units and the Company as a whole, the Research and Data Analysis Section provides timely, independently generated performance and trend data to senior management. The second major section within the Quality Assurance Department is the Operational Audit Section. This section consists of two full time audit teams comprised of subject matter experts from all the major discipline areas within institutional operations. Routinely, these two audit teams conduct rigorous, on site annual evaluations of each facility we operate with no advance notice. Highly specialized, discipline specific audit tools, containing over 1,700 audited items across eleven major operational areas, are employed in this detailed, comprehensive process. The results of these on site evaluations are used to discern areas of strength and areas in need of management attention. The audit findings also comprise a major part of our continuous operational risk assessment and management process. The Company has devoted significant resources to the Quality Assurance Department, enabling us to monitor compliance with contractual requirements, outside agency and accrediting organization standards. Quality Assurance closely monitors all efforts by our facilities to deliver the exceptional quality of services and operations expected.

Prisoner Transportation Services

We currently provide transportation services to governmental agencies through our wholly-owned subsidiary, TransCor America, LLC, or TransCor. During the years ended December 31, 2009, 2008, and 2007, TransCor generated total consolidated revenue of $4.0 million, $6.9 million, and $14.2 million, respectively, comprising 0.2%, 0.4%, and 1.0% of our total consolidated revenue in each respective year. We believe TransCor provides a complementary service to our core business that enables us to respond quickly to our customers transportation needs.

Facility Portfolio

General

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

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

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

Detention Facilities. Detention facilities house and provide contractually agreed upon programs and services to (i) prisoners being detained by ICE, (ii) prisoners who are awaiting trial who have been charged with violations of federal criminal law (and are therefore in the custody of the

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USMS) or state criminal law, and (iii) prisoners who have been convicted of crimes and on whom a sentence of one year or less has been imposed.

Leased Facilities. Leased facilities are facilities that are within one of the above categories and that we own but do not manage. These facilities are leased to third-party operators.

Facilities and Facility Management Contracts

We own 46 correctional and detention facilities in 14 states and the District of Columbia, two of which we lease to third-party operators. We also own two corporate office buildings. Additionally, we currently manage 21 correctional and detention facilities owned by government agencies. The segment disclosures are included in Note 17 of the Notes to the Financial Statements. The following table sets forth all of the facilities that we currently (i) own and manage, (ii) own, but are leased to another operator, and (iii) manage but are owned by a government authority. The table includes certain information regarding each facility, including the term of the primary management contract related to such facility, or, in the case of facilities we own but lease to a third-party operator, the term of such lease. We have a number of management contracts and leases that expire in 2010 (or have expired) with no remaining renewal options. We continue to operate, and, unless otherwise noted, expect to continue to manage or lease these facilities, although we can provide no assurance that we will maintain our contracts to manage or lease these facilities or when new contracts will be renewed.

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Facility Name	Primary Customer	Design Capacity (A)	Security Level	Facility Type (B)	Term	Remaining Renewal Options (C)
Kit Carson Correctional Center Burlington, Colorado	State of Colorado	1,488	Medium	Correctional	June 2010	
Coffee Correctional Facility (G) Nicholls, Georgia	State of Georgia	1,524	Medium	Correctional	June 2010	(24) 1 year
McRae Correctional Facility McRae, Georgia	BOP	1,524	Medium	Correctional	November 2010	(2) 1 year
Stewart Detention Center Lumpkin, Georgia	ICE	1,752	Medium	Detention	Indefinite	
Wheeler Correctional Facility (G) Alamo, Georgia	State of Georgia	1,524	Medium	Correctional	June 2010	(24) 1 year
Leavenworth Detention Center Leavenworth, Kansas	USMS	1,033	Maximum	Detention	December 2011	(3) 5 year
Lee Adjustment Center Beattyville, Kentucky	State of Vermont	816	Minimum/ Medium	Correctional	June 2011	
Marion Adjustment Center St. Mary, Kentucky	Commonwealth of Kentucky	826	Minimum/ Medium	Correctional	June 2011	(1) 2 year
Otter Creek Correctional Center (H) Wheelwright, Kentucky	Commonwealth of Kentucky	656	Minimum/ Medium	Correctional	June 2010	(1) 1 year (2) 2 year
Prairie Correctional Facility (I) Appleton, Minnesota	State of Minnesota	1,600	Medium	Correctional	March 2010	
Adams County Correctional Center Adams County, Mississippi	BOP	2,232	Medium	Correctional	July 2013	(3) 2 year
Tallahatchie County Correctional	State of	2,672	Medium	Correctional		Indefinite

Facility (J) Tutwiler, Mississippi	California				June 2011	
Crossroads Correctional Center (K) Shelby, Montana	State of Montana	664	Multi	Correctional	August 2009	(5) 2 year
Cibola County Corrections Center Milan, New Mexico	BOP	1,129	Medium	Correctional	September 2014	(3) 2 year
New Mexico Women s Correctional Facility Grants, New Mexico	State of New Mexico	596	Multi	Correctional	June 2010	
Torrance County Detention Facility Estancia, New Mexico	USMS	910	Multi	Detention	Indefinite	
Northeast Ohio Correctional Center Youngstown, Ohio	BOP	2,016	Medium	Correctional	May 2011	(2) 2 year
Queensgate Correctional Facility (L) Cincinnati, Ohio		850	Medium			
Cimarron Correctional Facility (M) Cushing, Oklahoma	State of Oklahoma	1,692	Medium	Correctional	June 2010	(4) 1 year
Davis Correctional Facility (M) Holdenville, Oklahoma	State of Oklahoma	1,670	Medium	Correctional	June 2010	(4) 1 year

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Facility Name	Primary Customer	Design Capacity (A)	Facility Security Level	Facility Type (B)	Term	Remaining Renewal Options (C)
Diamondback Correctional Facility Watonga, Oklahoma	State of Arizona	2,160	Medium	Correctional	May 2010	(2) 1 year
North Fork Correctional Facility Sayre, Oklahoma	State of California	2,400	Medium	Correctional	June 2011	Indefinite
West Tennessee Detention Facility Mason, Tennessee	USMS	600	Multi	Detention	February 2010	
Shelby Training Center Memphis, Tennessee		200	Secure			
Whiteville Correctional Facility (N) Whiteville, Tennessee	State of Tennessee	1,536	Medium	Correctional	September 2010	(1) 1 year
Bridgeport Pre-Parole Transfer Facility Bridgeport, Texas	State of Texas	200	Medium	Correctional	February 2011	
Eden Detention Center Eden, Texas	BOP	1,422	Medium	Correctional	April 2011	(3) 2 year
Houston Processing Center Houston, Texas	ICE	1,000	Medium	Detention	March 2010	(4) 1 year
Laredo Processing Center Laredo, Texas	ICE	258	Minimum/ Medium	Detention	Indefinite	
Webb County Detention Center Laredo, Texas	USMS	480	Medium	Detention	November 2012	(1) 5 year
Mineral Wells Pre-Parole Transfer Facility Mineral Wells, Texas	State of Texas	2,103	Minimum	Correctional	February 2011	
T. Don Hutto Residential Center	ICE	512	Minimum	Detention		

					January 2015	
Taylor, Texas						
D.C. Correctional Treatment Facility (O) Washington, D.C.	District of Columbia	1,500	Medium	Detention	March 2017	
Managed Only Facilities:						
Bay Correctional Facility Panama City, Florida	State of Florida	985	Medium	Correctional	July 2010	Indefinite
Citrus County Detention Facility Lecanto, Florida	Citrus County, Florida	760	Multi	Detention	September 2015	Indefinite
Gadsden Correctional Institution Quincy, Florida	State of Florida	1,520	Minimum/ Medium	Correctional	July 2010	Indefinite
Hernando County Jail Brooksville, Florida	Hernando County, Florida	876	Multi	Detention	October 2012	

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Facility Name	Primary Customer	Design Capacity (A)	Security Level	Facility Type (B)	Term	Remaining Renewal Options (C)
Lake City Correctional Facility Lake City, Florida	State of Florida	893	Secure	Correctional	June 2012	Indefinite
North Georgia Detention Center Hall County, Georgia	ICE	502	Medium	Detention	May 2014	Indefinite
Idaho Correctional Center Boise, Idaho	State of Idaho	2,016	Multi	Correctional	June 2014	(2) 2 year
Marion County Jail Indianapolis, Indiana	Marion County, Indiana	1,030	Multi	Detention	December 2017	(1) 10 year
Winn Correctional Center Winnfield, Louisiana	State of Louisiana	1,538	Medium/ Maximum	Correctional	March 2011	
Delta Correctional Facility Greenwood, Mississippi	State of Mississippi	1,172	Minimum/ Medium	Correctional	July 2010	
Wilkinson County Correctional Facility Woodville, Mississippi	State of Mississippi	1,000	Medium	Correctional	July 2010	
Elizabeth Detention Center Elizabeth, New Jersey	ICE	300	Minimum	Detention	September 2011	(4) 3 year
Silverdale Facilities Chattanooga, Tennessee	Hamilton County, Tennessee	1,046	Multi	Detention	December 2010	
South Central Correctional Center Clifton, Tennessee	State of Tennessee	1,676	Medium	Correctional	June 2010	(1) 2 year
Metro-Davidson County Detention Facility Nashville, Tennessee	Davidson County, Tennessee	1,092	Multi	Detention	July 2014	

Hardeman County Correctional Facility Whiteville, Tennessee	State of Tennessee	2,016	Medium	Correctional	May 2012	(2) 3 year
Bartlett State Jail Bartlett, Texas	State of Texas	1,049	Minimum/ Medium	Correctional	January 2011	
Bradshaw State Jail Henderson, Texas	State of Texas	1,980	Minimum/ Medium	Correctional	January 2011	
Dawson State Jail Dallas, Texas	State of Texas	2,216	Minimum/ Medium	Correctional	January 2011	
Lindsey State Jail Jacksboro, Texas	State of Texas	1,031	Minimum/ Medium	Correctional	January 2011	
Willacy State Jail Raymondville, Texas	State of Texas	1,069	Minimum/ Medium	Correctional	January 2011	
Leased Facilities:						
Leo Chesney Correctional Center Live Oak, California	Cornell Corrections	240	Minimum	Owned/Leased	September 2010	
Community Education Partners (P) Houston, Texas	Community Education Partners		Non-secure	Owned/Leased	June 2011	(2) 1 year

(A) Design capacity measures the number of beds and, accordingly, the number of inmates each facility is designed to accommodate. Facilities housing detainees on a short term basis may exceed the original intended design capacity for sentenced inmates due to the lower level of services required by detainees in custody for a brief period. From time to time, we may evaluate the design capacity of our facilities based on customers using the facilities, and the ability to

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reconfigure space with minimal capital outlays. As a result, the design capacity of certain facilities may vary from the design capacity previously presented. We believe design capacity is an appropriate measure for evaluating prison operations, because the revenue generated by each facility is based on a per diem or monthly rate per inmate housed at the facility paid by the corresponding contracting governmental entity.

(B) We manage numerous facilities that have more than a single function (e.g., housing both long-term sentenced adult prisoners and pre-trial detainees). The primary functional categories into which facility types are identified were determined by the relative size of inmate populations in a particular facility on December 31, 2009. If, for example, a 1,000-bed facility housed 900 adult inmates with sentences in excess of one year and 100 pre-trial detainees, the primary functional category to which it would be assigned would be that of correctional facilities and not detention facilities. It should be understood that the primary functional category to which multi-user facilities are assigned may change from time to time.

(C) Remaining renewal options represents the number of renewal options, if applicable, and the term of each option renewal.

(D) During January 2010, we were notified by the BOP of their decision not to renew the management contract at the California City Correctional Center upon its expiration in September 30, 2010.

(E) The facility is subject to a ground lease with the County of San Diego whereby the initial lease term is 18 years from the commencement of the contract, as defined. The County has the right to buy out all, or designated portions of, the premises at various times prior to the expiration of the term at a price generally equal to the cost of the premises, or the designated portion of the premises, less an allowance for the amortization over a 20-year period. Upon expiration of the lease, ownership of the facility automatically reverts to the County of San Diego. For additional information, see Note 4 of the Notes to the Financial Statements and the Liquidity section of Management s Discussion and Analysis of Financial Condition and Results of Operations.

(F) During January 2010, we were notified by the state of Arizona of their decision not to renew the management contract at the Huerfano County Correctional Center upon its expiration on March 8, 2010.

(G) The facility is subject to a purchase option held by the Georgia Department of Corrections, or GDOC, which grants the GDOC the right to purchase the facility for the lesser of the facility s depreciated book value or fair market value at any time during the term of the contract between the GDOC and us.

(H) The facility is subject to a deed of conveyance with the city of Wheelwright, Kentucky which includes provisions that allow assumption of ownership by the city of Wheelwright under the following occurrences: (1) we cease to operate the facility for more than two years, (2) our failure to maintain at least one employee for a period of sixty consecutive days, or (3) a conversion to a maximum security facility based upon classification by the Kentucky Corrections Cabinet.

(I) During December 2009, we announced our decision to cease operations at our Prairie Correctional Facility on or about February 1, 2010 due to low inmate populations at the facility. During 2009, the Prairie facility housed offenders from the states of Minnesota and Washington. However, due to excess capacity in the states systems, both states have been reducing the populations held at Prairie.

(J) The facility is subject to a purchase option held by the Tallahatchie County Correctional Authority that grants Tallahatchie County Correctional Authority the right to purchase the facility at any time during the contract at a price generally equal to the cost of the premises less an allowance for amortization originally over a 20-year period. The amortization period was extended through 2050 in connection with an expansion completed during

the fourth quarter of 2007.

(K) The state of Montana has an option to purchase the facility generally at any time during the term of the contract with us at fair market value less the sum of a pre-determined portion of per diem payments made to us by the state of Montana.

(L) During December 2008, we were notified by Hamilton County, Ohio of its intent to terminate the lease for the 850-bed Queensgate Correctional Facility. We believe the County elected to terminate the lease effective January 1, 2009, due to funding issues experienced by the County.

(M) The facility is subject to a purchase option held by the Oklahoma Department of Corrections, or ODC, which grants the ODC the right to purchase the facility at its fair market value at any time during the term of the contract with ODC.

(N) The state of Tennessee has the option to purchase the facility in the event of our bankruptcy, or upon an operational breach, as defined, at a price equal to the book value of the facility, as defined.

(O) The District of Columbia has the right to purchase the facility at any time during the term of the contract at a price generally equal to the present value of the remaining lease payments for the premises. Upon expiration of the lease in 2017, ownership of the facility automatically reverts to the District of Columbia.

(P) The alternative educational facility is currently configured to accommodate 900 at-risk juveniles and may be expanded to accommodate a total of 1,400 at-risk juveniles.

Facilities Under Construction or Development

In May 2008, we announced that we were awarded a contract by the OFDT, the federal agency responsible for managing and regulating federal detention programs, to design, build, and operate a new correctional facility located in Pahrump, Nevada, approximately 65 miles outside of Las Vegas, Nevada. Our new 1,072-bed Nevada Southern Detention Center is expected to house approximately 1,000 federal prisoners. The contract provides for a guarantee of up to 750 inmates or detainees and includes an initial term of five years with three five-year renewal options. We currently expect construction to be completed during the third quarter of 2010, at an estimated total cost of $83.5 million.

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In July 2009, we announced that we had been awarded an amendment to our existing contracts with the Georgia Department of Corrections to expand two of our existing facilities by 1,500 beds. The award satisfied a competitive Request for Proposal of 1,500 beds from the state of Georgia that was issued in October of 2008. As of December 31, 2009, we housed approximately 3,400 inmates from the state of Georgia. As a result of the award, we will expand our 1,524-bed Coffee Correctional Facility by 788 beds and our 1,524 bed Wheeler Correctional Facility by 712 beds. The expansions are estimated to cost approximately $65.0 million and are currently anticipated to be completed during the third quarter of 2010, at which point we expect to begin receiving the incremental inmates.

In early 2008, we also announced our intention to construct a new 2,040-bed correctional facility in Trousdale County, Tennessee. However, we have temporarily suspended the construction of this facility until we have greater clarity around the timing of future bed absorption by our customers. We will continue to monitor our customers needs, and could promptly resume construction of the facility.

Business Development

We are currently the nation s largest provider of outsourced correctional management services. We believe we manage approximately 45% of all beds under contract with private operators of correctional and detention facilities in the United States.

Under the direction of our business development department and our senior management and with the aid, where appropriate, of certain independent consultants, we market our services to government agencies responsible for federal, state, and local correctional facilities in the United States. Business from our federal customers, including primarily the BOP, USMS, and ICE, continues to be a significant component of our business accounting for 39%, 40%, and 41% of total revenue in 2009, 2008, and 2007, respectively. The BOP, USMS, and ICE, along with the State of California Department of Corrections and Rehabilitation (CDCR), were our only customers that accounted for 10% or more of our total revenue during these years. The BOP accounted for 13% of total revenue for each of these years 2009, 2008, and 2007. The USMS accounted for 14%, 14%, and 15% of total revenue for 2009, 2008, and 2007, respectively. ICE accounted for 12%, 13%, and 13% of total revenue for 2009, 2008, and 2007, respectively. Certain federal contracts contain take-or-pay clauses that guarantee us a certain amount of management revenue, regardless of occupancy levels.

In addition, business from our state customers, which constituted 52%, 52%, and 49% of total revenue during 2009, 2008, and 2007, respectively, and increased 6.8% from $820.1 million during 2008 to $875.6 million during 2009, as we experienced an increase in demand from the state of California. The CDCR accounted for 11%, 6%, and 1% of total revenue for 2009, 2008, and 2007, respectively.

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

- Maintaining and expanding our existing customer relationships and continuing to fill existing beds within our facilities, while maintaining an adequate inventory of available beds through new facility construction and expansion opportunities that we believe provides us with flexibility and a competitive advantage when bidding for new management contracts;

- Enhancing the terms of our existing contracts; and

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

We generally receive inquiries from or on behalf of government agencies that are considering outsourcing the management of certain facilities or that have already decided to contract with a private

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enterprise. When we receive such an inquiry, we determine whether there is an existing need for our services and whether the legal and political climate in which the inquiring party operates is conducive to serious consideration of outsourcing. Based on the findings, an initial cost analysis is conducted to further determine project feasibility. Frequently, government agencies responsible for correctional and detention services procure goods and services through solicitations or competitive procurements. As part of our process of responding to such requests, members of our management team meet with the appropriate personnel from the agency making the request to best determine the agency s needs. If the project fits within our strategy, we submit a written response. A typical solicitation or competitive procurement requires bidders to provide detailed information, including, but not limited to, the service to be provided by the bidder, its experience and qualifications, and the price at which the bidder is willing to provide the services (which services may include the renovation, improvement or expansion of an existing facility or the planning, design and construction of a new facility). The requesting agency selects a firm believed to be most qualified to provide the requested services and then negotiates the terms of the contract with that firm, which terms include the price at which its services are to be provided.

Competitive Strengths

We believe that we benefit from the following competitive strengths:

The Largest and Most Recognized Private Prison Operator. Our recognition as the industry s leading private prison operator provides us with significant credibility with our current and prospective clients. We believe we manage approximately 45% of all privately managed prison beds in the United States. We pioneered modern-day private prisons with a list of notable accomplishments, such as being the first company to design, build, and operate a private prison and the first company to manage a private maximum-security facility under a direct contract with the federal government. In addition to providing us with extensive experience and institutional knowledge, our size also helps us deliver value to our customers by providing purchasing power and allowing us to achieve certain economies of scale.

Available Beds within Our Existing Facilities. As of December 31, 2009, we had approximately 9,900 unoccupied beds in inventory that had availability of 100 or more beds, and almost 2,600 additional beds under development, including 1,500 expansion beds at two facilities we own in Georgia and a new 1,072-bed correctional facility we are constructing in Nevada. Of these, 6,000 beds are under guaranteed contracts with existing customers, leaving us with 6,500 beds available. We have staff throughout the organization actively engaged in marketing this available capacity to existing and prospective customers. Historically, we have been successful in substantially filling our inventory of available beds and the beds that we have constructed. However, we can provide no assurance that we will be able to obtain new or existing customers to fill our available beds.

*Development and Expansion Opportunitie*s. Although the demand for prison beds in the short term could be affected by the severe budget challenges many of our customers currently face, these challenges put further pressure on our customers ability to construct new prison beds of their own, which we believe could result in further reliance on the private sector for providing the capacity we believe our customers will need in the long term. We will continue to pursue build-to-suit opportunities like the aforementioned 1,500-bed expansions for the state of Georgia and the 1,072-bed facility we are constructing in Nevada for the OFDT. In the long-term, we would like to see continued and meaningful utilization of our remaining capacity and better visibility from our customers before we add any additional capacity on a speculative basis.

During December 2008, we completed construction of a new 2,232-bed correctional facility in Adams County, Mississippi and during 2008 and early 2009 placed into service 3,060 beds at our new La

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Palma Correctional Center in Eloy, Arizona. The La Palma Correctional Center is being fully utilized by the state of California. We have recently increased the number of beds under contract with the State of California at other facilities we own. We commenced receiving federal inmates from the BOP during the third quarter of 2009 at our Adams County Correctional Center, and expect the BOP to substantially fill this facility in 2010.

Diverse, High Quality Customer Base. We provide services under management contracts with federal, state, and local agencies that generally have credit ratings of single-A or better. In addition, a majority of our contracts have terms between one and five years which contribute to our relatively predictable and stable revenue base.

Proven Senior Management Team. Our senior management team has applied their prior experience and diverse industry expertise to significantly improve our operations, related financial results, and capital structure. Under our senior management team s leadership, we have created new business opportunities with customers that have not previously utilized the private corrections sector, expanded relationships with existing customers, including all three federal correctional and detention agencies, and successfully completed numerous recapitalization and refinancing transactions, resulting in increases in revenues, operating income, facility operating margins, and profitability.

Financial Flexibility. As of December 31, 2009, we had cash on hand of $45.9 million and $236.2 million available (net of $11.6 million of unfunded borrowings and $1.1 million of letters of credit issued by Lehman Brothers Commercial Bank, which committed $15.0 million under our revolving credit facility, declared bankruptcy in 2008, and is no longer funding borrowing requests) under our $450.0 million revolving credit facility, and no debt maturities until December 2012. During the year ended December 31, 2009, we generated $314.7 million in cash through operating activities, and as of December 31, 2009, we had net working capital of $130.7 million. As a well-known seasoned issuer , as currently defined by the SEC, we have the ability to file a shelf registration statement that automatically becomes effective enabling us to issue debt and equity securities from time to time when we determine that market conditions and the opportunity to utilize the proceeds from the issuance of such securities are favorable. At December 31, 2009, the interest rates on all our outstanding indebtedness were fixed, with the exception of the interest rate applicable to $171.8 million outstanding under our revolving credit facility, with a total weighted average effective interest rate of 6.6%, while our total weighted average debt maturity was 4.9 years. Standard & Poor s Ratings Services currently rates our unsecured debt and corporate credit as BB , while Moody s Investors Service currently rates our unsecured debt as Ba2 . On September 17, 2009, Moody s improved its outlook on our debt rating to positive from stable.

Business Strategy

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

Own and Operate High Quality Correctional and Detention Facilities. We believe that our customers choose an outsourced correctional service provider based primarily on availability of beds, price, and the quality services provided. Approximately 91% of the facilities we operated as of December 31, 2009 are accredited by the ACA, an independent organization of corrections industry professionals that establishes standards by which a correctional facility may gain accreditation. We believe that this

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percentage compares favorably to the percentage of government-operated adult prisons that are accredited by the ACA. We have experienced wardens managing our facilities, with an average of 25 years of corrections experience and an average tenure of 13 years with us.

Offer Compelling Value. We believe that our customers also seek a compelling value and service offering when selecting an outsourced correctional services provider. We believe that we offer a cost-effective alternative to our customers by reducing their correctional services costs and allowing them to avoid making large capital investments in new prison beds. We attempt to improve operating performance and efficiency through the following key operating initiatives: (1) standardizing supply and service purchasing practices and usage; (2) implementing a standard approach to staffing and business practices in an effort to reduce our fixed expenses; (3) improving inmate management, resource consumption, and reporting procedures through the utilization of numerous technological initiatives; and (4) improving productivity and reducing employee turnover. Recognizing the challenges we faced as a result of the economic downturn, our efforts to contain costs were intensified during 2009, as we implemented a company-wide initiative to improve operating efficiencies, and established a framework for accelerating the process and ensuring continuous delivery over the long-term. Further, certain states have requested, and additional state customers could request, reductions in per diem rates or request that we forego prospective rate increases in the future as methods of addressing the budget shortfalls they may be experiencing. Accordingly, we established a customer response team to create unique solutions for our government partners to help them manage their correctional costs while minimizing the financial impact to us.

We also intend to continue to implement a wide variety of specialized services that address the unique needs of various segments of the inmate population. Because the facilities we operate differ with respect to security levels, ages, genders, and cultures of inmates, we focus on the particular needs of an inmate population and tailor our services based on local conditions and our ability to provide services on a cost-effective basis.

Increase Occupancy and Revenue. Our industry benefits from significant economies of scale, resulting in lower operating costs per inmate as occupancy rates increase. We believe we have been successful in increasing the number of residents in our care and continue to pursue a number of initiatives intended to further increase our occupancy and revenue. Our competitive cost structure offers prospective customers a compelling option for incarceration. The unique budgetary challenges states are facing may cause states to further rely on us to help reduce their costs, and also cause those states that have not previously utilized the private sector to turn to the private sector to help reduce their overall costs of incarceration. We are actively pursuing these opportunities. We are also focused on renewing and enhancing the terms of our existing contracts. However, we recognize that the budgetary constraints our state customers are experiencing will present challenges in obtaining per diem increases and additional inmate populations in the short-term. Nonetheless, we believe the long-term growth opportunities of our business remain very attractive as insufficient bed development by our customers should result in a return to the supply and demand imbalance that has been benefiting the private prison industry.

Capital Strategy

We believe the success of our business strategy and recent financing transactions have provided us with the financial flexibility to take advantage of various opportunities as they arise. During 2009, 2008, and 2007, we generated cash flow from operating activities of $314.7 million, $273.6 million, and $250.9 million, respectively. During December 2007, we entered into a $450.0 million senior secured revolving credit facility which, based on our current leverage ratio, currently bears interest at a base rate or LIBOR plus a margin of 0.75%, and matures in December 2012.

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During June 2009, we completed the sale and issuance of $465.0 million aggregate principal amount of 7.75% unsecured senior notes pursuant to a prospectus supplement under an automatically effective shelf registration statement that we filed with the SEC on May 19, 2009. The 7.75% senior notes were issued at a price of 97.116%, resulting in a yield to maturity of 8.25%. We used the net proceeds from the sale of the 7.75% senior notes to purchase, redeem, or otherwise acquire our 7.5% senior notes, to pay fees and expenses, and for general corporate purposes. Replacing the 7.5% senior notes, which were scheduled to mature on May 1, 2011, with the 7.75% senior notes, which are scheduled to mature on June 1, 2017, extended our nearest debt maturity to December 2012.

As of December 31, 2009, we had $73.9 million in estimated costs remaining to complete the aforementioned 1,500-bed expansions of two correctional facilities we own in Georgia, and on construction of our new 1,072-bed Nevada Southern Detention Center. Further, certain of our customers have expressed an interest in pursuing additional bed capacity from third parties despite their budgetary challenges. We believe our debt refinancing provides us with more financial flexibility to take advantage of opportunities that may require additional capital.

As of December 31, 2009, we had cash on hand of $45.9 million and $236.2 million available under our revolving credit facility. None of our outstanding debt requires scheduled principal payments, and we have no debt maturities until December 2012.

In November 2008, our Board of Directors approved a program to repurchase up to $150.0 million of our common stock through purchases from time to time in the open market or through privately negotiated transactions, in accordance with SEC requirements. During 2008 and 2009, we purchased 10.7 million shares of common stock under the repurchase program for $125.0 million at an average price of $11.72 per share. The Board s authorization expired December 31, 2009.

During February 2010, our Board of Directors approved another program to repurchase up to $250.0 million of our common stock through June 30, 2011. Given current market conditions and available bed capacity within our portfolio, we believe that it is appropriate to use our capital resources to repurchase common stock at prices that would equal or exceed the rates of return we require when we invest in new beds. Funds for the repurchase of shares are expected to come primarily from cash on hand, borrowings under our revolving credit facility, and cash from operating activities. We believe we have the ability to fund the stock repurchase program as well as our capital expenditure requirements, including the construction projects under development, maintenance and information technology capital expenditures, working capital, and debt service requirements with cash on hand, cash from operating activities, and borrowings available under our revolving credit facility, while maintaining liquidity.

The Corrections and Detention Industry

We believe we are well-positioned to capitalize on government outsourcing of correctional management services because of our competitive strengths, business strategy, and financial flexibility. Notwithstanding the effects the current economy could have on our customers demand for prison beds in the short term, we believe the long-term trends favor an increase in the outsourcing of correctional management services. The key reasons for this outsourcing trend include (unless otherwise noted, statistical references were obtained from the Bureau of Justice Statistics Bulletin issued by the U.S. Department of Justice in December 2009):

Growing United States Prison Population. At year-end 2008, federal and state correctional authorities had jurisdiction over 1.6 million prisoners. The annual growth rate of the federal and state prison population increased 0.8% for the year ended December 31, 2008, which was less than the average annual growth rate of 1.8% from 2000 to 2008. During 2008, the total number of prisoners under federal jurisdiction increased 0.8%, while state prison populations also increased 0.8%. Federal

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agencies are collectively our largest customer and accounted for 39% of our total revenues (when aggregating all of our federal contracts) for the year ended December 31, 2009. The imprisonment rate the number of sentenced prisoners per 100,000 residents decreased slightly from 506 prisoners per 100,000 U.S. residents in 2007 to 504 prisoners per 100,000 U.S. residents in 2008. About one in every 198 persons in the U.S. resident population was incarcerated in state or federal prison at year end 2008.

Prison Overcrowding. The significant growth of the prison population in the United States over the past decade, combined with a lack of new prison capacity constructed by the public sector, has led to overcrowding in the state and federal prison systems. In 2008, at least 18 states and the federal prison system reported operating at or above their highest capacity measure. The federal prison system was operating at 35% above capacity at December 31, 2008.

Acceptance of Privatization. The prisoner population housed in privately managed facilities in the United States as of December 31, 2008 was approximately 129,000. At December 31, 2008, 16.5% of federal inmates and 6.8% of state inmates were held in private facilities. Since December 31, 2000, the number of federal inmates held in private facilities has increased approximately 114%, while the number of state inmates held in private facilities has increased approximately 33%. Twenty states had at least 5% of their prison population held in private facilities at December 31, 2008. Six states housed at least 25% of their prison population in private facilities as of December 31, 2008 New Mexico (46%), Montana (36%), Hawaii (35%), Vermont (34%), Alaska (29%), and Idaho (29%).

Governmental Budgeting Constraints. We believe the outsourcing of prison management services to private operators allows governments to manage increasing inmate populations while simultaneously controlling correctional costs and improving correctional services. The use of facilities owned and managed by private operators allows governments to expand prison capacity without incurring large capital commitments or debt required to increase correctional capacity. We believe these advantages translate into significant cost savings for government agencies.

Government Regulation

Business Regulations

The industry in which we operate is subject to extensive federal, state, and local regulations, including educational, health care, and safety regulations, which are administered by many governmental and regulatory authorities. Some of the regulations are unique to the corrections industry. Facility management contracts typically include reporting requirements, supervision, and on-site monitoring by representatives of the contracting governmental agencies. Corrections officers are customarily required to meet certain training standards and, in some instances, facility personnel are required to be licensed and subject to background investigation. Certain jurisdictions also require us to award subcontracts on a competitive basis or to subcontract with businesses owned by members of minority groups. Our facilities are also subject to operational and financial audits by the governmental agencies with which we have contracts. Failure to comply with these regulations can result in material penalties or non-renewal or termination of facility management contracts.

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

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Environmental Matters

Under various federal, state, and local environmental laws, ordinances and regulations, a current or previous owner or operator of real property may be liable for the costs of removal or remediation of hazardous or toxic substances on, under, or in such property. Such laws often impose liability whether or not the owner or operator knew of, or was responsible for, the presence of such hazardous or toxic substances. As an owner of correctional and detention facilities, we have been subject to these laws, ordinances, and regulations as the result of our operation and management of correctional and detention facilities. Phase I environmental assessments have been obtained on substantially all of the properties we currently own. We are not aware of any environmental matters that are expected to materially affect our financial condition or results of operations; however, if such matters are detected in the future, the costs of complying with environmental laws may adversely affect our financial condition and results of operations.

Health Insurance Portability and Accountability Act of 1996 and Privacy and Security Requirements

In 1996, Congress enacted the Health Insurance Portability and Accountability Act of 1996, or HIPAA. HIPAA was designed to improve the portability and continuity of health insurance coverage, simplify the administration of health insurance, and protect the privacy and security of health-related information.

Privacy regulations promulgated under HIPAA regulate the use and disclosure of individually identifiable health-related information, whether communicated electronically, on paper, or orally. The regulations also provide patients with significant rights related to understanding and controlling how their health information is used or disclosed. Security regulations promulgated under HIPAA require that health care providers implement administrative, physical, and technical practices to protect the security of individually identifiable health information that is maintained or transmitted electronically. These privacy and security regulations require the implementation of compliance training and awareness programs for our health care service providers associated with healthcare we provide to inmates and selected other employees primarily associated with our employee medical plans. Further, as required by the American Recovery and Reinvestment Act of 2009 (the ARRA), the Department of Health and Human Services (DHHS) issued interim breach notification regulations requiring HIPAA covered entities and their business associates to provide notification to affected individuals without unreasonable delay but not to exceed 60 days of discovery of a breach of unsecured protected health information. Notification must also be made to DHHS and, in certain situations involving large breaches, to the media.

Violations of the HIPAA regulations could result in significant civil and criminal penalties. Further, the ARRA provides for minimum penalties as well as increased maximum penalties and authorizes state attorneys general to bring civil actions for injunctions or damages in response to violations that threaten the privacy of state residents.

In addition, there are numerous legislative and regulatory initiatives at the federal and state levels addressing the privacy and security of patient health information and other identifying information. For example, various state laws and regulations require providers and other entities to notify affected individuals in the event of a data breach involving certain types of individually identifiable health or financial information. Further, health care providers are subject to many state laws that relate to privacy or the reporting of security breaches that are more restrictive than the regulations issued under HIPAA and the requirements of the ARRA. These statutes vary and could impose additional penalties.

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Insurance

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

Each of our management contracts and the statutes of certain states require the maintenance of insurance. We maintain various insurance policies including employee health, workers compensation, automobile liability, and general liability insurance. Because we are significantly self-insured for employee health, workers compensation, and automobile liability insurance, the amount of our insurance expense is dependent on claims experience, and our ability to control our claims experience. Our insurance policies contain various deductibles and stop-loss amounts intended to limit our exposure for individually significant occurrences. However, the nature of our self-insurance policies provides little protection for deterioration in overall claims experience. We are continually developing strategies to improve the management of our future loss claims but can provide no assurance that these strategies will be successful. However, unanticipated additional insurance expenses resulting from adverse claims experience or an increasing cost environment for general liability and other types of insurance could adversely impact our results of operations and cash flows.

Employees

As of December 31, 2009, we employed approximately 17,425 employees. Of such employees, approximately 360 were employed at our corporate offices and approximately 17,065 were employed at our facilities and in our inmate transportation business. We employ personnel in the following areas: clerical and administrative, facility administrators/wardens, security, medical, quality assurance, transportation and scheduling, maintenance, teachers, counselors, and other support services.

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

We have not experienced a strike or work stoppage at any of our facilities. Approximately 775 employees at three of our facilities are represented by labor unions. In the opinion of management, overall employee relations are good.

Competition

The correctional and detention facilities we operate and manage, as well as those facilities we own but are managed by other operators, are subject to competition for inmates from other private prison managers. We compete primarily on the basis of bed availability, cost, the quality and range of services offered, our experience in the operation and management of correctional and detention facilities, and our reputation. We compete with government agencies that are responsible for correctional facilities and a number of privatized correctional service companies, including, but not limited to, the GEO Group, Inc., Cornell Companies, Inc, and Management and Training Corporation. We also compete in some markets with small local companies that may have a better knowledge of the local conditions and may be better able to gain political and public acceptance. Other potential competitors may in the future enter into businesses competitive with us without a substantial capital investment or prior experience. We may also compete in the future for new development projects with

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companies that have more financial resources than we have. Competition by other companies may adversely affect the number of inmates at our facilities, which could have a material adverse effect on the operating revenue of our facilities. In addition, revenue derived from our facilities will be affected by a number of factors, including the demand for inmate beds, general economic conditions, and the age of the general population.

ITEM 1A. RISK FACTORS.

As the owner and operator of correctional and detention facilities, we are subject to certain risks and uncertainties associated with, among other things, the corrections and detention industry and pending or threatened litigation in which we are involved. In addition, we are also currently subject to risks associated with our indebtedness. The risks and uncertainties set forth below could cause our actual results to differ materially from those indicated in the forward-looking statements contained herein and elsewhere. The risks described below are not the only risks we face. Additional risks and uncertainties not currently known to us or those we currently deem to be immaterial may also materially and adversely affect our business operations. Any of the following risks could materially adversely affect our business, financial condition, or results of operations.

Risks Related to Our Business and Industry

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

We are subject to fluctuations in occupancy levels. While a substantial portion of our cost structure is fixed, a substantial portion of our revenues is generated under facility management contracts that specify per diem payments based upon occupancy. Under a per diem rate structure, a decrease in our occupancy rates could cause a decrease in revenue and profitability. Average compensated occupancy for our facilities in operation for 2009, 2008, and 2007 was 90.7%, 95.5%, and 98.2%, respectively. Occupancy rates may, however, decrease below these levels in the future.

We are dependent on government appropriations and our results of operations may be negatively affected by governmental budgetary challenges. Our cash flow is subject to the receipt of sufficient funding of and timely payment by contracting governmental entities. If the appropriate governmental agency does not receive sufficient appropriations to cover its contractual obligations, it may terminate our contract or delay or reduce payment to us. Any delays in payment, or the termination of a contract, could have an adverse effect on our cash flow and financial condition. During 2009, the state of California delayed payments of cash to us by issuing interest bearing warrants, also known as IOU s. Although the state of California ultimately redeemed the warrants for cash, if California were to resume issuing warrants or if several additional major customers substantially delayed their cash payments to us, our liquidity could be materially affected. In addition, federal, state and local governments are constantly under pressure to control additional spending or reduce current levels of spending. These pressures have been compounded by the current economic downturn. Accordingly, we have been requested and may be requested in the future to reduce our existing per diem contract rates or forego prospective increases to those rates. Further, our customers could reduce inmate population levels in facilities we manage to contain their correctional costs. In addition, it may become more difficult to renew our existing contracts on favorable terms or otherwise.

Competition for inmates may adversely affect the profitability of our business. We compete with government entities and other private operators on the basis of bed availability, cost, quality, and range of services offered, experience in managing facilities and reputation of management and personnel. While there are barriers to entering the market for the management of correctional and detention facilities, these barriers may not be sufficient to limit additional competition. In addition, our

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government customers may assume the management of a facility that they own and we currently manage for them upon the termination of the corresponding management contract or, if such customers have capacity at their facilities, may take inmates currently housed in our facilities and transfer them to government-run facilities. Since we are paid on a per diem basis with no minimum guaranteed occupancy under most of our contracts, the loss of such inmates and resulting decrease in occupancy would cause a decrease in our revenues and profitability.

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

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

We are subject to termination or non-renewal of our government contracts. We typically enter into facility management contracts with governmental entities for terms of up to five years, with additional renewal periods at the option of the contracting governmental agency. Notwithstanding any contractual renewal option of a contracting governmental agency, 24 of our facility management contracts with the customers listed under Business Facility Portfolio Facilities and Facility Management Contracts have expired (1) or are currently scheduled to expire (23) on or before December 31, 2010. See Business Facility Portfolio Facilities and Facility Management contracts. Although we generally expect these customers to exercise renewal options or negotiate new contracts with us, one or more of these contracts may not be renewed by the corresponding governmental agency. In addition, these and any other contracting agencies may determine not to exercise renewal options with respect to any of our contracts in the future. During January 2010, we were notified by the BOP of their decision not to renew the management contract at our 2,304-bed California City Correctional Center in California City, California upon expiration of the management contract on September 30, 2010. During January 2010, the Governor and Legislature in the state of Arizona proposed budgets that would phase-out the utilization of private out-of-state beds. As of December 31, 2009, we managed approximately 2,100 inmates at our Diamondback Correctional Facility in Oklahoma and 675 inmates at our Huerfano County Correctional Center in Colorado under management contracts with the state of Arizona. We have since received formal notification from the state of Arizona that they will not renew the management contract at the Huerfano facility upon termination of the contract on March 8, 2010. Our contract with Arizona at Diamondback expires on May 1, 2010.

Governmental agencies typically may terminate a facility contract at any time without cause or use the possibility of termination to negotiate a lower per diem rate. In the event any of our management contracts are terminated or are not renewed on favorable terms or otherwise, we may not be able to obtain additional replacement contracts. The non-renewal or termination of any of our contracts with governmental agencies could materially adversely affect our financial condition, results of operations and liquidity, including our ability to secure new facility management contracts from others.

Our ability to secure new contracts to develop and manage correctional and detention facilities depends on many factors outside our control. Our growth is generally dependent upon our ability to obtain new contracts to develop and manage new correctional and detention facilities. This possible

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growth depends on a number of factors we cannot control, including crime rates and sentencing patterns in various jurisdictions and acceptance of privatization. The demand for our facilities and services could be adversely affected by the relaxation of enforcement efforts, leniency in conviction or parole standards and sentencing practices or through the decriminalization of certain activities that are currently proscribed by our criminal laws. For instance, any changes with respect to drugs and controlled substances or illegal immigration could affect the number of persons arrested, convicted, and sentenced, thereby potentially reducing demand for correctional facilities to house them. Legislation has been proposed in numerous jurisdictions that could lower minimum sentences for some non-violent crimes and make more inmates eligible for early release based on good behavior. Also, sentencing alternatives under consideration could put some offenders on probation with electronic monitoring who would otherwise be incarcerated. Similarly, reductions in crime rates could lead to reductions in arrests, convictions and sentences requiring incarceration at correctional facilities.

Moreover, certain jurisdictions recently have required successful bidders to make a significant capital investment in connection with the financing of a particular project, a trend that will require us to have sufficient capital resources to compete effectively. We may compete for such projects with companies that have more financial resources than we have. Further, we may not be able to obtain the capital resources when needed. A prolonged downturn in the financial credit markets could make it more difficult to obtain capital resources at favorable rates of return or obtain capital resources at all.

We may face community opposition to facility location, which may adversely affect our ability to obtain new contracts. Our success in obtaining new awards and contracts sometimes depends, in part, upon our ability to locate land that can be leased or acquired, on economically favorable terms, by us or other entities working with us in conjunction with our proposal to construct and/or manage a facility. Some locations may be in or near populous areas and, therefore, may generate legal action or other forms of opposition from residents in areas surrounding a proposed site. When we select the intended project site, we attempt to conduct business in communities where local leaders and residents generally support the establishment of a privatized correctional or detention facility. Future efforts to find suitable host communities may not be successful. We may incur substantial costs in evaluating the feasibility of the development of a correctional or detention facility. As a result, we may report significant charges if we decide to abandon efforts to develop a correctional or detention facility on a particular site. In many cases, the site selection is made by the contracting governmental entity. In such cases, site selection may be made for reasons related to political and/or economic development interests and may lead to the selection of sites that have less favorable environments.

We may incur significant start-up and operating costs on new contracts before receiving related revenues, which may impact our cash flows and not be recouped. When we are awarded a contract to manage a facility, we may incur significant start-up and operating expenses, including the cost of constructing the facility, purchasing equipment and staffing the facility, before we receive any payments under the contract. These expenditures could result in a significant reduction in our cash reserves and may make it more difficult for us to meet other cash obligations. In addition, a contract may be terminated prior to its scheduled expiration and as a result we may not recover these expenditures or realize any return on our investment.

Failure to comply with unique and increased governmental regulation could result in material penalties or non-renewal or termination of our contracts to manage correctional and detention facilities. The industry in which we operate is subject to extensive federal, state, and local regulations, including educational, health care, and safety regulations, which are administered by many regulatory authorities. Some of the regulations are unique to the corrections industry, some are unique to government contractors and the combination of regulations we face is unique. Facility management contracts typically include reporting requirements, supervision, and on-site monitoring by representatives of the contracting governmental agencies. Corrections officers are customarily required to meet certain training standards and, in some instances, facility personnel are required to be

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licensed and subject to background investigation. Certain jurisdictions also require us to award subcontracts on a competitive basis or to subcontract with certain types of businesses, such as small businesses and businesses owned by members of minority groups. Our facilities are also subject to operational and financial audits by the governmental agencies with whom we have contracts. New federal regulations also require federal government contractors like us to self-report evidence of certain forms of misconduct. We may not always successfully comply with these regulations, and failure to comply can result in material penalties, including financial penalties, non-renewal or termination of facility management contracts, and suspension or debarment from contracting with certain government entities.

In addition, private prison managers are increasingly subject to government legislation and regulation attempting to restrict the ability of private prison managers to house certain types of inmates, such as inmates from other jurisdictions or inmates at medium or higher security levels. Legislation has been enacted in several states, and has previously been proposed in the United States Congress, containing such restrictions. Such legislation may have an adverse effect on us.

Our inmate transportation subsidiary, TransCor, is subject to regulations promulgated by the Departments of Transportation and Justice. TransCor must also comply with the Interstate Transportation of Dangerous Criminals Act of 2000, which covers operational aspects of transporting prisoners, including, but not limited to, background checks and drug testing of employees; employee training; employee hours; staff-to-inmate ratios; prisoner restraints; communication with local law enforcement; and standards to help ensure the safety of prisoners during transport. We are subject to changes in such regulations, which could result in an increase in the cost of our transportation operations.

Moreover, the Federal Communications Commission, or the FCC, has published for comment a petition for rulemaking, filed on behalf of an inmate family, which would prevent private prison managers from collecting commissions from the operations of inmate telephone systems. We believe that there are sound reasons for the collection of such commissions by all operators of prisons, whether public or private. The FCC has traditionally deferred from rulemaking in this area; however, there is the risk that the FCC could act to prohibit private prison managers, like us, from collecting such revenues. Such an outcome could have a material adverse effect on our results of operations.

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

We depend on a limited number of governmental customers for a significant portion of our revenues. We currently derive, and expect to continue to derive, a significant portion of our revenues from a limited number of governmental agencies. The loss of, or a significant decrease in, business from the BOP, ICE, USMS, or various state agencies could seriously harm our financial condition and results of operations. The three primary federal governmental agencies with correctional and detention

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responsibilities, the BOP, ICE, and USMS, accounted for 39% of our total revenues for the fiscal year ended December 31, 2009 ($659.5 million). The USMS accounted for 14% of our total revenues for the fiscal year ended December 31, 2009 ($237.3 million), BOP accounted for 13% of our total revenues for the fiscal year ended December 31, 2009 ($218.5 million), and ICE accounted for 12% of our total revenues for the fiscal year ended December 31, 2009 ($203.7 million). Although the revenue generated from each of these agencies is derived from numerous management contracts, the loss of one or more of such contracts could have a material adverse impact in our financial condition and results of operations. We expect to continue to depend upon the federal agencies and a relatively small group of other governmental customers for a significant percentage of our revenues.

The CDCR accounted for 11% of our total revenues for the fiscal year ended December 31, 2009 ($177.1 million). We have a contract with the CDCR providing the CDCR the ability to house up to 10,468 inmates in five of the facilities we own. As of December 31, 2009, we housed 7,970 inmates from the state of California. Several legal proceedings have challenged the State s ability to send inmates out-of-state. Legislative enactments or additional legal proceedings, including a proceeding under federal jurisdiction that could potentially reduce the number of inmates in the California prison system, may impact the out-of-state transfer of inmates or could result in the return of inmates we currently house for the CDCR. Further, the expiration of the statutory authority to transfer California inmates to out-of-state private correctional facilities coincides with the expiration of our management contract on June 30, 2011. If transfers from California are limited as a result of one or more of these proceedings, or if the authority to transfer inmates out-of-state to our facilities is not extended upon expiration, we would market the beds housed by the CDCR inmates to other federal and state customers. The return of the California inmates to the state of California would have a significant adverse impact on our financial position, results of operations, and cash flows.

A decrease in occupancy levels could cause a decrease in revenues and profitability. While a substantial portion of our cost structure is generally fixed, a significant portion of our revenues are generated under facility management contracts which provide for per diem payments based upon daily occupancy. We are dependent upon the governmental agencies with which we have contracts to provide inmates for our managed facilities. We cannot control occupancy levels at our managed facilities. Under a per diem rate structure, a decrease in our occupancy rates could cause a decrease in revenues and profitability. When combined with relatively fixed costs for operating each facility, regardless of the occupancy level, a decrease in occupancy levels could have a material adverse effect on our profitability.

We are dependent upon our senior management and our ability to attract and retain sufficient qualified personnel. The success of our business depends in large part on the ability and experience of our senior management. The unexpected loss of any of these persons could materially adversely affect our business and operations.

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

Adverse developments in our relationship with our employees could adversely affect our business, financial condition or results of operations.

As of December 31, 2009, we employed approximately 17,425 employees. Approximately 775 of our employees at three of our facilities, or less than 5% of our workforce, are represented by labor unions.

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We have not experienced a strike or work stoppage at any of our facilities and in the opinion of management overall employee relations are good. Proposed legislation, such as the Employee Free Choice Act (EFCA), if enacted, could increase organizational activity at locations where employees are currently not represented by a labor organization. Increases in organizational activity or any future work stoppages could have a material adverse effect on our business, financial condition, or results of operations.

We are subject to necessary insurance costs.

Workers compensation, employee health, and general liability insurance represent significant costs to us. Because we are significantly self-insured for workers compensation, employee health, and general liability risks, the amount of our insurance expense is dependent on claims experience, our ability to control our claims experience, and in the case of workers compensation and employee health, rising health care costs in general. Unanticipated additional insurance costs could adversely impact our results of operations and cash flows, and the failure to obtain or maintain any necessary insurance coverage could have a material adverse effect on us.

We may be adversely affected by inflation.

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

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

Our ownership and management of correctional and detention facilities, and the provision of inmate transportation services by a subsidiary, expose us to potential third-party claims or litigation by prisoners or other persons relating to personal injury or other damages resulting from contact with a facility, its managers, personnel or other prisoners, including damages arising from a prisoner s escape from, or a disturbance or riot at, a facility we own or manage, or from the misconduct of our employees. To the extent the events serving as a basis for any potential claims are alleged or determined to constitute illegal or criminal activity, we could also be subject to criminal liability. Such liability could result in significant monetary fines and could affect our ability to bid on future contracts and retain our existing contracts. In addition, as an owner of real property, we may be subject to a variety of proceedings relating to personal injuries of persons at such facilities. The claims against our facilities may be significant and may not be covered by insurance. Even in cases covered by insurance, our deductible (or self-insured retention) may be significant.

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

Our ownership of correctional and detention facilities subjects us to risks typically associated with investments in real estate. Investments in real estate and, in particular, correctional and detention facilities have limited or no alternative use and thus, are relatively illiquid, and therefore, our ability to divest ourselves of one or more of our facilities promptly in response to changed conditions is limited. Investments in correctional and detention facilities, in particular, subject us to risks involving potential exposure to environmental liability and uninsured loss. Our operating costs may be affected by the obligation to pay for the cost of complying with existing environmental laws, ordinances and regulations, as well as the cost of complying with future legislation. In addition, although we maintain insurance for many types of losses, there are certain types of losses, such as losses from earthquakes

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and acts of terrorism, which may be either uninsurable or for which it may not be economically feasible to obtain insurance coverage, in light of the substantial costs associated with such insurance. As a result, we could lose both our capital invested in, and anticipated profits from, one or more of the facilities we own. Further, it is possible to experience losses that may exceed the limits of insurance coverage.

In addition, our focus on facility development and expansion poses additional risks, including cost overruns caused by various factors, many of which are beyond our control, such as weather, labor conditions, and material shortages, resulting in increased construction costs. Further, if we are unable to utilize this new bed capacity, our financial results could deteriorate.

Certain of our facilities are subject to options to purchase and reversions. Ten of our facilities are or will be subject to an option to purchase by certain governmental agencies. Such options are exercisable by the corresponding contracting governmental entity generally at any time during the term of the respective facility management contract. Certain of these purchase options are based on the depreciated book value of the facility, which essentially results in the transfer of ownership of the facility to the governmental agency at the end of the life used for accounting purposes. See Business Facility Portfolio Facilities and Facility Management Contracts. If any of these options are exercised, there exists the risk that we will be unable to invest the proceeds from the sale of the facility in one or more properties that yield as much cash flow as the property acquired by the government entity. In addition, in the event any of these options are exercised, there exists the risk that the contracting governmental agency will terminate the management contract associated with such facility. For the year ended December 31, 2009, the facilities subject to these options generated $281.4 million in revenue (16.9% of total revenue) and incurred $200.0 million in operating expenses. Certain of the options to purchase are exercisable at prices below fair market value. See Business Facility Portfolio Facilities and Facility Management Contracts.

In addition, the ownership of two of our facilities (that are also subject to options to purchase) will, upon the expiration of certain ground leases with remaining terms generally ranging from 7 to 9 years, revert to the respective governmental agency contracting with us. See Business Facility Portfolio Facilities and Facility Management Contracts. At the time of such reversion, there exists the risk that the contracting governmental agency will terminate the management contract associated with such facility. For the year ended December 31, 2009, the facilities subject to reversion generated $73.7 million in revenue (4.4% of total revenue) and incurred $53.7 million in operating expenses.

Risks related to facility construction and development activities may increase our costs related to such activities. When we are engaged to perform construction and design services for a facility, we typically act as the primary contractor and subcontract with other companies who act as the general contractors. As primary contractor, we are subject to the various risks associated with construction (including, without limitation, shortages of labor and materials, work stoppages, labor disputes, and weather interference) which could cause construction delays. In addition, we are subject to the risk that the general contractor will be unable to complete construction at the budgeted costs or be unable to fund any excess construction costs, even though we require general contractors to post construction bonds and insurance. Under such contracts, we are ultimately liable for all late delivery penalties and cost overruns.

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

We are often required to post bid or performance bonds issued by a surety company as a condition to bidding on or being awarded a contract. Availability and pricing of these surety commitments are

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subject to general market and industry conditions, among other factors. Increases in surety costs could adversely affect our operating results if we are unable to effectively pass along such increases to our customers. We cannot assure you that we will have continued access to surety credit or that we will be able to secure bonds economically, without additional collateral, or at the levels required for any potential facility development or contract bids. If we are unable to obtain adequate levels of surety credit on favorable terms, we would have to rely upon letters of credit under our revolving credit facility, which could entail higher costs even if such borrowing capacity was available when desired at the time, and our ability to bid for or obtain new contracts could be impaired.

Our issuance of preferred stock could adversely affect holders of our common stock and discourage a takeover. Our board of directors has the power to issue up to 50.0 million shares of preferred stock without any action on the part of our stockholders. Our board of directors also has the power, without stockholder approval, to set the terms of any new series of preferred stock that may be issued, including voting rights, dividend rights, preferences over our common stock with respect to dividends or in the event of a dissolution, liquidation or winding up, and other terms. In the event that we issue additional shares of preferred stock in the future that has preference over our common stock, with respect to payment of dividends or upon our liquidation, dissolution or winding up, or if we issue preferred stock with voting rights that dilute the voting power of our common stock, the rights of the holders of our common stock or the market price of our common stock could be adversely affected. In addition, the ability of our board of directors to issue shares of preferred stock without any action on the part of our stockholders may impede a takeover of us and prevent a transaction favorable to our stockholders.

Our charter and bylaws and Maryland law could make it difficult for a third party to acquire our company. The Maryland General Corporation Law and our charter and bylaws contain provisions that could delay, deter, or prevent a change in control of our company or our management. These provisions could also discourage proxy contests and make it more difficult for our stockholders to elect directors and take other corporate actions. These provisions:

- authorize us to issue blank check preferred stock, which is preferred stock that can be created and issued by our board of directors, without stockholder approval, with rights senior to those of common stock;
- provide that directors may be removed with or without cause only by the affirmative vote of at least a majority of the votes of shares entitled to vote thereon; and
- establish advance notice requirements for submitting nominations for election to the board of directors and for proposing matters that can be acted upon by stockholders at a meeting.

We are also subject to anti-takeover provisions under Maryland law, which could delay or prevent a change of control. Together, these provisions of our charter and bylaws and Maryland law may discourage transactions that otherwise could provide for the payment of a premium over prevailing market prices for our common stock, and also could limit the price that investors are willing to pay in the future for shares of our common stock.

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Risks Related to Our Leveraged Capital Structure

Our indebtedness could adversely affect our financial health and prevent us from fulfilling our obligations under our debt securities.

As of December 31, 2009, we had total indebtedness of $1,149.1 million. Our indebtedness could have important consequences. For example, it could:

make it more difficult for us to satisfy our obligations with respect to our indebtedness;

increase our vulnerability to general adverse economic and industry conditions;

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

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

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

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

Our revolving credit facility and other debt instruments have restrictive covenants that could affect our financial condition.

The indenture related to our aggregate principal amount of $375.0 million 6.25% senior notes due 2013, the indenture related to our aggregate principal amount of $150.0 million 6.75% senior notes due 2014, and the indenture related to our aggregate principal amount of $465.0 million 7.75% senior notes due 2017, collectively referred to herein as our senior notes, and our revolving credit facility contain financial and other restrictive covenants that limit our ability to engage in activities that may be in our long-term best interests. Our ability to borrow under our revolving credit facility is subject to compliance with certain financial covenants, including leverage and interest coverage ratios. Our revolving credit facility includes other restrictions that, among other things, limit our ability to incur indebtedness; grant liens; engage in mergers, consolidations and liquidations; make asset dispositions, restricted payments and investments; enter into transactions with affiliates; and amend, modify or prepay certain indebtedness. The indentures related to our senior notes contain limitations on our ability to effect mergers and change of control events, as well as other limitations, including:

limitations on incurring additional indebtedness;

limitations on the sale of assets;

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

limitations on transactions with affiliates; and

limitations on liens.

Our failure to comply with these covenants could result in an event of default that, if not cured or waived, could result in the acceleration of all of our debts. We do not have sufficient working capital

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to satisfy our debt obligations in the event of an acceleration of all or a significant portion of our outstanding indebtedness.

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

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

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

We are required to repurchase all or a portion of our senior notes upon a change of control.

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

Despite current indebtedness levels, we may still incur more debt.

The terms of the indentures for our senior notes and our revolving credit facility restrict our ability to incur significant additional indebtedness in the future. However, in the future, we may refinance all or a portion of our indebtedness, including our revolving credit facility, and may incur additional indebtedness as a result. As of December 31, 2009, we had $236.2 million of additional borrowing capacity available under our $450.0 million revolving credit facility. In addition, we may issue an indeterminate amount of securities from time to time when we determine that market conditions and the opportunity to utilize the proceeds from the issuance of such securities are favorable. If new debt is added to our and our subsidiaries current debt levels, the related risks that we and they now face could intensify.

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Our access to capital may be affected by general macroeconomic conditions.

As a result of current economic conditions, credit markets have tightened significantly such that the ability to obtain new capital has become more challenging and more expensive. In addition, several large financial institutions have either recently failed or been dependent on the assistance of the federal government to continue to operate as a going concern. Lehman Brothers Commercial Bank, which holds a $15.0 million share in our revolving credit facility, is a defaulting lender under the terms of the credit agreement. To date, Lehman has funded $2.3 million that remains outstanding as of December 31, 2009 and $1.1 million in letters of credit. The loan balance will be repaid on a pro-rata basis whenever we repay any LIBOR-based loans on tranches Lehman previously funded. To the extent that their funding is reduced, it will not be replaced. Going forward, we do not expect to have access to incremental funding from Lehman. Further, to the extent we obtain additional letters of credit under the facility, we will be required to provide cash collateral on a pro-rata basis to reflect the inability of Lehman to fulfill its commitments.

We can provide no assurance that the remaining banks that have made commitments under our revolving credit facility will continue to operate as a going concern in the future. If any of the remaining banks in the lending group were to fail, it is possible that the capacity under the revolving credit facility would be further reduced. In the event that the availability under the revolving credit facility was reduced significantly, we could be required to obtain capital from alternate sources in order to continue with our business and capital strategies. Our options for addressing such capital constraints would include, but not be limited to (i) delaying certain capital expenditure projects, (ii) obtaining commitments from the remaining banks in the lending group or from new banks to fund increased amounts under the terms of the revolving credit facility, or (iii) accessing the public capital markets. Such alternatives in the current market would likely be on terms less favorable than under existing terms, which could have a material effect on our consolidated financial position, results of operations, or cash flows.

ITEM 1B. UNRESOLVED STAFF COMMENTS.

None.

ITEM 2. PROPERTIES.

The properties we owned at December 31, 2009 are described under Item 1 and in Note 4 of the Notes to the Financial Statements contained in this annual report.

ITEM 3. LEGAL PROCEEDINGS.

The nature of our business results in claims and litigation alleging that we are liable for damages arising from the conduct of our employees, inmates or others. The nature of such claims includes, but is not limited to, claims arising from employee or inmate misconduct, medical malpractice, employment matters, property loss, contractual claims, and personal injury or other damages resulting from contact with our facilities, personnel, or inmates, including damages arising from an inmate s escape or from a disturbance or riot at a facility. We maintain insurance to cover many of these claims which may mitigate the risk that any single claim would have a material effect on our consolidated financial position, results of operations, or cash flows, provided the claim is one for which coverage is available. The combination of self-insured retentions and deductible amounts means that, in the aggregate, we are subject to substantial self-insurance risk.

We record litigation reserves related to certain matters for which it is probable that a loss has been incurred and the range of such loss can be estimated. Based upon management s review of the potential claims and outstanding litigation and based upon management s experience and history of

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estimating losses, management believes a loss in excess of amounts already recognized would not be material to our financial statements. In the opinion of management, there are no pending legal proceedings that would have a material effect on our consolidated financial position, results of operations, or cash flows. Any receivable for insurance recoveries is recorded separately from the corresponding litigation reserve, and only if recovery is determined to be probable. Adversarial proceedings and litigation are, however, subject to inherent uncertainties, and unfavorable decisions and rulings could occur which could have a material adverse impact on our consolidated financial position, results of operations, or cash flows for the period in which such decisions or rulings occur, or future periods. Expenses associated with legal proceedings may also fluctuate from quarter to quarter based on changes in our assumptions, new developments, or the effectiveness of our litigation and settlement strategies.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

None.

PART II.

ITEM 5. MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.

Market Price of and Distributions on Capital Stock

Our common stock is traded on the New York Stock Exchange, or NYSE, under the symbol CXW. On February 16, 2010 the last reported sale price of our common stock was $20.00 per share and there were approximately 4,700 registered holders and approximately 68,300 beneficial holders, respectively, of our common stock.

The following table sets forth, for the fiscal quarters indicated, the range of high and low sales prices of the common stock.

Common Stock

	SALES PRICE	
	HIGH	**LOW**
FISCAL YEAR 2009		
First Quarter	$17.66	$ 9.50
Second Quarter	$17.30	$12.64
Third Quarter	$23.15	$15.74
Fourth Quarter	$26.25	$22.48

	SALES PRICE	
	HIGH	**LOW**
FISCAL YEAR 2008		
First Quarter	$29.65	$22.92
Second Quarter	$28.82	$24.35
Third Quarter	$29.40	$23.00
Fourth Quarter	$24.99	$11.86

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Dividend Policy

During the years ended December 31, 2009 and 2008, we did not pay any dividends on our common stock. Pursuant to the terms of the indentures governing our senior notes and our senior secured revolving credit agreement, we are limited in the amount of dividends we can declare or pay on our outstanding shares of common stock. Taking into consideration these limitations, management and our board of directors regularly evaluate the merits of declaring and paying a dividend. Future dividends, if any, will depend on our future earnings, our capital requirements, our financial condition, alternative uses of capital, and on such other factors as our board of directors may consider relevant.

Issuer Purchases of Equity Securities

None.

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ITEM 6. SELECTED FINANCIAL DATA.

The following selected financial data for the five years ended December 31, 2009, was derived from our consolidated financial statements and the related notes thereto. This data should be read in conjunction with our audited consolidated financial statements, including the related notes, and Management s Discussion and Analysis of Financial Condition and Results of Operations. Our audited consolidated financial statements, including the related notes, as of December 31, 2009 and 2008, and for the years ended December 31, 2009, 2008, and 2007 are included in this annual report.

CORRECTIONS CORPORATION OF AMERICA AND SUBSIDIARIES
SELECTED HISTORICAL FINANCIAL INFORMATION
(in thousands, except per share data)

	For the Years Ended December 31,				
STATEMENT OF OPERATIONS:	**2009**	2008	2007	2006	2005
Revenue:					
Management and other	**$ 1,667,798**	$ 1,581,593	$ 1,439,826	$ 1,287,297	$ 1,150,470
Rental	**2,165**	2,576	2,399	2,218	2,041
Total revenue	**1,669,963**	1,584,169	1,442,225	1,289,515	1,152,511
Expenses:					
Operating	**1,168,672**	1,112,679	1,025,040	937,491	863,439
General and administrative	**86,537**	80,308	74,399	63,593	57,053
Depreciation and amortization	**100,799**	90,555	78,396	67,150	59,415
Goodwill impairment			554		
Total expenses	**1,356,008**	1,283,542	1,178,389	1,068,234	979,907
Operating income	**313,955**	300,627	263,836	221,281	172,604
Other (income) expense:					
Interest expense, net	**72,780**	59,404	53,776	58,783	63,928
Expenses associated with debt refinancing and recapitalization transactions	**3,838**			982	35,269
Other (income) expense	**(151)**	292	(308)	(260)	263
	76,467	59,696	53,468	59,505	99,460
Income from continuing operations before income taxes	**237,488**	240,931	210,368	161,776	73,144
Income tax expense	**(81,745)**	(90,933)	(79,367)	(59,455)	(25,389)
Income from continuing operations	**155,743**	149,998	131,001	102,321	47,755
Income (loss) from discontinued operations, net of taxes	**(789)**	943	2,372	2,918	2,367
Net income	**$ 154,954**	$ 150,941	$ 133,373	$ 105,239	$ 50,122

(continued)

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CORRECTIONS CORPORATION OF AMERICA AND SUBSIDIARIES
SELECTED HISTORICAL FINANCIAL INFORMATION
(in thousands, except per share data)
(continued)

	For the Years Ended December 31,				
	2009	2008	2007	2006	2005
Basic earnings per share:					
Income from continuing operations	**$ 1.34**	$ 1.20	$ 1.07	$ 0.86	$ 0.41
Income (loss) from discontinued operations, net of taxes	**(0.01)**	0.01	0.02	0.02	0.02
Net income	**$ 1.33**	$ 1.21	$ 1.09	$ 0.88	$ 0.43
Diluted earnings per share:					
Income from continuing operations	**$ 1.33**	$ 1.19	$ 1.04	$ 0.84	$ 0.40
Income (loss) from discontinued operations, net of taxes	**(0.01)**	0.01	0.02	0.02	0.02
Net income	**$ 1.32**	$ 1.20	$ 1.06	$ 0.86	$ 0.42
Weighted average common shares outstanding:					
Basic	**116,088**	124,464	122,553	119,714	115,426
Diluted	**117,290**	126,250	125,381	123,058	120,846

	December 31,				
BALANCE SHEET DATA:	**2009**	2008	2007	2006	2005
Total assets	**$ 2,905,743**	$ 2,871,374	$ 2,485,740	$ 2,250,860	$ 2,086,313
Total debt	**$ 1,149,099**	$ 1,192,922	$ 975,967	$ 976,258	$ 975,636
Total liabilities	**$ 1,463,197**	$ 1,491,015	$ 1,263,765	$ 1,201,179	$ 1,169,682
Stockholders equity	**$ 1,442,546**	$ 1,380,359	$ 1,221,975	$ 1,049,681	$ 916,631

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ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

The following discussion should be read in conjunction with the financial statements and notes thereto appearing elsewhere in this report. This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of certain factors, including, but not limited to, those described under Risk Factors and included in other portions of this report.

OVERVIEW

We currently operate 65 facilities, including 44 facilities that we own, with a total design capacity of approximately 87,000 beds in 19 states and the District of Columbia. We also own two additional correctional facilities that we lease to third-party operators. We are the nation s largest owner and operator of privatized correctional and detention facilities and one of the largest prison operators in the United States behind only the federal government and three states. Our size and experience provide us with significant credibility with our current and prospective customers, and enable us to generate economies of scale in purchasing power for food services, health care and other supplies and services we offer to our customers.

We are compensated for operating and managing prisons and correctional facilities at an inmate per diem rate based upon actual or minimum guaranteed occupancy levels. The significant expansion of the prison population in the United States has led to overcrowding in the federal and state prison systems, providing us with opportunities for growth. Federal, state, and local governments are constantly under budgetary constraints putting pressure on governments to control correctional budgets, including per diem rates our customers pay to us. These pressures have been compounded by the recent economic downturn. Although we are encouraged by recent economic data indicating that the worst of the economic downturn may be over, government agencies continue to experience revenue shortfalls in their fiscal year 2010 budgets. Our governmental partners may be forced to take further actions to address revenue shortfalls in their fiscal year 2010 budgets such as reductions in inmate populations through early release programs, alternative sentencing, or inmate transfers from facilities managed by private operators to facilities operated by the respective jurisdictions. Further, certain states have requested, and additional state customers could request, reductions in per diem rates or request that we forego prospective rate increases in the future as methods of addressing the budget shortfalls they may be experiencing. We believe we have been successful in working with our government partners to help them manage their correctional costs while minimizing the financial impact to us, and will continue to provide unique solutions to their correctional needs. We believe the long-term growth opportunities of our business remain very attractive as insufficient bed development by our customers should result in a return to the supply and demand imbalance that has been benefiting the private prison industry.

Governments continue to experience many significant spending demands which have constrained correctional budgets limiting their ability to expand existing facilities or construct new facilities. We believe the outsourcing of prison management services to private operators allows governments to manage increasing inmate populations while simultaneously controlling correctional costs and improving correctional services. We believe our customers discover that partnering with private operators to provide residential services to their inmates introduces competition to their prison system, resulting in improvements to the quality and cost of corrections services throughout their correctional system. Further, the use of facilities owned and managed by private operators allows governments to expand correctional capacity without incurring large capital commitments.

We also believe that having beds immediately available to our customers provides us with a distinct competitive advantage when bidding on new contracts. While we have been successful in winning

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contract awards to provide management services for facilities we do not own, and will continue to pursue such management contracts, we believe the most significant opportunities for growth are in providing our government partners with available beds within facilities we currently own or that we develop. We also believe that owning the facilities in which we provide management services enables us to more rapidly replace business lost compared with managed-only facilities, since we can offer the same beds to new and existing customers and, with customer consent, may have more flexibility in moving our existing inmate populations to facilities with available capacity. Our management contracts generally provide our customers with the right to terminate our management contracts at any time without cause.

As of December 31, 2009, we had approximately 9,900 unoccupied beds in inventory that had availability of 100 or more beds, and almost 2,600 additional beds under development, including 1,500 expansion beds at two facilities we own in Georgia and a new 1,072-bed correctional facility we are constructing in Nevada. Of these, 6,000 beds are under guaranteed contracts with existing customers, leaving us with 6,500 beds available. We have staff throughout the organization actively engaged in marketing this available capacity to existing and prospective customers. Historically, we have been successful in substantially filling our inventory of available beds and the beds that we have constructed. However, we can provide no assurance that we will be able to obtain new or existing customers to fill our available beds.

Although the demand for prison beds in the short term has been affected by the severe budget challenges many of our customers currently face, these challenges put further pressure on our customers ability to construct new prison beds of their own, which we believe could result in further reliance on the private sector for providing the capacity we believe our customers will need in the long term. We will continue to pursue build-to-suit opportunities like the aforementioned 1,500-bed expansions for the state of Georgia and the 1,072-bed facility we are constructing in Nevada for the OFDT. In the long-term, we would like to see continued and meaningful utilization of our remaining capacity and better visibility from our customers before we add any additional capacity on a speculative basis.

We also remain steadfast in our efforts to contain costs. Approximately 64% of our operating expenses consist of salaries and benefits. The turnover rate for correctional officers for our company, and for the corrections industry in general, remains high. Although we have been successful in reducing workers compensation costs and containing medical benefits costs for our employees, such costs continue to increase primarily as a result of continued rising healthcare costs throughout the country. Reducing these staffing costs requires a long-term strategy to control such costs, and we continue to dedicate resources to enhance our benefits, provide training and career development opportunities to our staff and attract and retain quality personnel. Recognizing the challenges we faced as a result of the economic downturn, our efforts to contain costs were intensified during 2009, as we implemented a company-wide initiative to improve operating efficiencies, and established a framework for accelerating the process and ensuring continuous delivery over the long-term.

Through the combination of our initiatives to increase our revenues by taking advantage of our available beds as well as delivering new bed capacity through new facility construction and expansion opportunities, and our strategies to contain our operating expenses, we believe we will be able to maintain our competitive advantage and continue to improve the quality services we provide to our customers at an economical price, thereby producing value to our stockholders.

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CRITICAL ACCOUNTING POLICIES

The consolidated financial statements are prepared in conformity with accounting principles generally accepted in the United States. As such, we are required to make certain estimates, judgments and assumptions that we believe are reasonable based upon the information available. These estimates and assumptions affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. A summary of our significant accounting policies is described in Note 2 to our audited financial statements. The significant accounting policies and estimates which we believe are the most critical to aid in fully understanding and evaluating our reported financial results include the following:

Asset impairments. As of December 31, 2009, we had $2.5 billion in long-lived assets. We evaluate the recoverability of the carrying values of our long-lived assets, other than goodwill, when events suggest that an impairment may have occurred. Such events primarily include, but are not limited to, the termination of a management contract or a significant decrease in inmate populations within a correctional facility we own or manage. In these circumstances, we utilize estimates of undiscounted cash flows to determine if an impairment exists. If an impairment exists, it is measured as the amount by which the carrying amount of the asset exceeds the estimated fair value of the asset.

Goodwill impairments. Goodwill attributable to each of our reporting units is tested for impairment by comparing the fair value of each reporting unit with its carrying value. Fair value is determined using a collaboration of various common valuation techniques, including market multiples and discounted cash flows. Each of these techniques requires considerable judgment and estimations that could change in the future. These impairment tests are required to be performed at least annually. We perform our impairment tests during the fourth quarter, in connection with our annual budgeting process, and whenever circumstances indicate the carrying value of goodwill may not be recoverable.

Income taxes. Deferred income taxes reflect the available net operating losses and the net tax effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Realization of the future tax benefits related to deferred tax assets is dependent on many factors, including our past earnings history, expected future earnings, the character and jurisdiction of such earnings, unsettled circumstances that, if unfavorably resolved, would adversely affect utilization of our deferred tax assets, carryback and carryforward periods, and tax strategies that could potentially enhance the likelihood of realization of a deferred tax asset.

We have approximately $5.3 million in net operating losses applicable to various states that we expect to carry forward in future years to offset taxable income in such states. We have a valuation allowance of $0.9 million for the estimated amount of the net operating losses that will expire unused, in addition to a $3.3 million valuation allowance related to state tax credits that are also expected to expire unused. Although our estimate of future taxable income is based on current assumptions we believe to be reasonable, our assumptions may prove inaccurate and could change in the future, which could result in the expiration of additional net operating losses or credits. We would be required to establish a valuation allowance at such time that we no longer expected to utilize these net operating losses or credits, which could result in a material impact on our results of operations in the future.

Self-funded insurance reserves. As of December 31, 2009 and 2008, we had $34.0 million and $34.3 million, respectively, in accrued liabilities for employee health, workers compensation, and automobile insurance claims. We are significantly self-insured for employee health, workers compensation, and automobile liability insurance claims. As such, our insurance expense is largely dependent on claims experience and our ability to control our claims. We have consistently accrued the estimated liability for employee health insurance claims based on our history of claims experience and the time lag between the incident date and the date the cost is paid by us. We have accrued the

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estimated liability for workers compensation and automobile insurance claims based on an actuarial valuation of the outstanding liabilities, discounted to the net present value of the outstanding liabilities, using a combination of actuarial methods used to project ultimate losses. The liability for employee health, workers compensation, and automobile insurance includes estimates for both claims incurred and for claims incurred but not reported. These estimates could change in the future. It is possible that future cash flows and results of operations could be materially affected by changes in our assumptions, new developments, or by the effectiveness of our strategies.

Legal reserves. As of December 31, 2009 and 2008, we had $11.4 million and $15.3 million, respectively, in accrued liabilities related to certain legal proceedings in which we are involved. We have accrued our estimate of the probable costs for the resolution of these claims based on a range of potential outcomes. In addition, we are subject to current and potential future legal proceedings for which little or no accrual has been reflected because our current assessment of the potential exposure is nominal. These estimates have been developed in consultation with our General Counsel s office and, as appropriate, outside counsel handling these matters, and are based upon an analysis of potential results, assuming a combination of litigation and settlement strategies. It is possible that future cash flows and results of operations could be materially affected by changes in our assumptions, new developments, or by the effectiveness of our strategies.

RESULTS OF OPERATIONS

The following table sets forth for the years ended December 31, 2009, 2008, and 2007, the number of facilities we owned and managed, the number of facilities we managed but did not own, the number of facilities we leased to other operators, and the facilities we owned that were not yet in operation.

	Effective Date	Owned and Managed	Managed Only	Leased	Total
Facilities as of December 31, 2007		41	24	3	68
Activation of the La Palma Correctional Center	July & October 2008	1			1
Expiration of the management contract for the Camino Nuevo Correctional Center	August 2008		(1)		(1)
Expiration of the management contract for the Bay County Jail and Annex	October 2008		(1)		(1)
Completion of construction of the Adams County Correctional Center	December 2008	1			1
Facilities as of December 31, 2008		43	22	3	68
Termination of the lease at our owned Queensgate Correctional Facility	January 2009	1		(1)	
Expiration of the management contract for the B.M. Moore Correctional Center	January 2009		(1)		(1)
Expiration of the management contract for the Diboll Correctional Center	January 2009		(1)		(1)
Activation of the North Georgia Detention Center	July 2009		1		1
Facilities as of December 31, 2009		**44**	**21**	**2**	**67**

Our results of operations are also impacted by the number of beds created as a result of expansion and development projects completed at facilities we own or at facilities we manage but do not own. The following table sets forth the

number of beds placed into service since January 1, 2008 as a result of facility expansion and development projects:

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Facility	Quarter Completed	Expansion Beds	Owned or Managed-Only
Kit Carson Correctional Center	First quarter 2008	720	Owned
Eden Detention Center	First quarter 2008	129	Owned
Tallahatchie County Correctional Facility	Second quarter 2008	720	Owned
	Fourth quarter 2008	128	Owned
Bent County Correctional Facility	Second quarter 2008	720	Owned
Leavenworth Detention Center	Second quarter 2008	266	Owned
La Palma Correctional Center	Third quarter 2008	1,020	Owned
	Fourth quarter 2008	1,020	Owned
	First quarter 2009	1,020	Owned
Davis Correctional Facility	Third quarter 2008	660	Owned
Cimarron Correctional Facility	Fourth quarter 2008	660	Owned
Silverdale Facilities	Fourth quarter 2008	128	Managed-Only
Adams County Correctional Center	Fourth quarter 2008	2,232	Owned
Idaho Correctional Center	Third quarter 2009	540	Managed-Only
North Georgia Detention Center	Third quarter 2009	502	Managed-Only
		10,465	

Year Ended December 31, 2009 Compared to the Year Ended December 31, 2008

During the year ended December 31, 2009, we generated net income of $155.0 million, or $1.32 per diluted share, compared with net income of $150.9 million, or $1.20 per diluted share, for the previous year. Contributing to the increase in net income for 2009 compared to the previous year was an increase in operating income of $13.3 million, from $300.6 million during 2008 to $314.0 million during 2009 as a result of an increase in average daily inmate populations and new management contracts, partially offset by an increase in general and administrative expenses and depreciation and amortization.

Net income during 2009 was favorably impacted by an income tax benefit of $5.7 million, or $0.05 per diluted share, reflecting the reversal of an estimated liability for uncertain tax positions that were effectively settled during the third quarter of 2009 upon completion of an audit performed by the Internal Revenue Service of our 2006 and 2007 federal income tax returns. Net income during 2009 was negatively impacted by a $3.8 million charge, or $0.02 per diluted share after taxes, associated with debt refinancing transactions completed during the second quarter of 2009, as further described hereafter, which consisted of a tender premium paid to the holders of the 7.5% senior notes who tendered their notes to us at par pursuant to our tender offer, estimated fees and expenses associated with the tender offer, and the write-off of the debt premium and existing deferred loan costs associated with the purchase of the 7.5% senior notes. Additionally, net income during 2009 was negatively impacted by $4.2 million, or $0.02 per diluted share after taxes, of general and administrative expenses associated with a company-wide initiative to improve operating efficiency.

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Facility Operations

A key performance indicator we use to measure the revenue and expenses associated with the operation of the facilities we own or manage is expressed in terms of a compensated man-day, which represents the revenue we generate and expenses we incur for one inmate for one calendar day. Revenue and expenses per compensated man-day are computed by dividing facility revenue and expenses by the total number of compensated man-days during the period. We believe the measurement is useful because we are compensated for operating and managing facilities at an inmate per-diem rate based upon actual or minimum guaranteed occupancy levels. We also measure our ability to contain costs on a per-compensated man-day basis, which is largely dependent upon the number of inmates we accommodate. Further, per compensated man-day measurements are also used to estimate our potential profitability based on certain occupancy levels relative to design capacity. Revenue and expenses per compensated man-day for all of the facilities placed into service that we owned or managed, exclusive of those discontinued (see further discussion below regarding discontinued operations), were as follows for the years ended December 31, 2009 and 2008:

	For the Years Ended December 31,	
	2009	2008
Revenue per compensated man-day	**$ 58.33**	$ 57.39
Operating expenses per compensated man-day:		
Fixed expense	**30.54**	29.76
Variable expense	**9.95**	10.08
Total	**40.49**	39.84
Operating margin per compensated man-day	**$ 17.84**	$ 17.55
Operating margin	**30.6%**	30.6%
Average compensated occupancy	**90.7%**	95.5%
Average available beds	**86,152**	78,512
Average compensated population	**78,131**	74,970

Our operating margins for both the years ended December 31, 2009 and 2008 were 30.6%. Our revenue per compensated man-day increased 1.6% to $58.33 during 2009 from $57.39 during 2008 positively impacting our operating margins during 2009. This increase in revenue per compensated man-day resulted from new contracts at higher average per diems than on existing contracts and from per diem increases we received on existing contracts. Additionally, the increase in operating expenses per compensated man-day of 1.6% to $40.49 during 2009 from $39.84 during 2008 partially offset the increases in revenue.

Average compensated population increased 3,161 from 74,970 during the year ended December 31, 2008 to 78,131 during the year ended December 31, 2009. The increase in average compensated population resulted primarily from the placement of approximately 10,500 beds into service since January 2008. These new beds were largely the result of the opening of our 3,060-bed La Palma Correctional Center in the second half of 2008 and the first quarter of 2009, the opening of our 2,232-bed Adams County Correctional Center completed in the fourth quarter of 2008 (which began housing inmates during the third quarter of 2009 as further described hereafter), the opening of the 502-bed North Georgia Detention Center in the third quarter of 2009, as well as the completion of approximately 4,700 expansion beds placed into service during 2008 and 2009.

Our total facility management revenue increased by $88.8 million, or 5.6%, during 2009 compared with 2008 resulting primarily from an increase in revenue of approximately $66.2 million generated by

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an increase in the average daily compensated population during 2009. The remaining increase in facility management revenue was primarily driven by the rate increase of 1.6% in the average revenue per compensated man-day resulting from per diem increases as well as new contracts at higher than average per diem rates than existing contracts.

State revenues increased $55.5 million, or 6.8%, from $820.1 million for the year ended December 31, 2008 to $875.6 million for the year ended December 31, 2009. State revenues increased as certain states, such as the state of California, turned to the private sector to help alleviate their overcrowding situations, while other states utilized additional bed capacity we constructed for them or contracted to utilize additional beds at our facilities. Although we are encouraged by recent economic data indicating that the worst of the economic downturn may be over, state government agencies continue to experience revenue shortfalls in their fiscal year 2010 budgets. States may be forced to take further actions to address revenue shortfalls in their fiscal year 2010 budgets such as reductions in inmate populations through early release programs, alternative sentencing, or inmate transfers from facilities managed by private operators to facilities operated by the state or other local jurisdictions. Further, certain states have requested, and additional state customers could request, reductions in per diem rates or request that we forego prospective rate increases in the future as methods of addressing the budget shortfalls they may be experiencing.

Business from our federal customers, including the Federal Bureau of Prisons, or the BOP, the United States Marshals Service, or the USMS, and U.S. Immigration and Customs Enforcement, or ICE, continues to be a significant component of our business, increasing $30.7 million, or 4.9% from $628.9 million in 2008 to $659.5 million in 2009. Our federal customers generated 39% and 40% of our total revenue for the years ended December 31, 2009 and 2008, respectively.

Operating expenses totaled $1,168.7 million and $1,112.7 million for the years ended December 31, 2009 and 2008, respectively. Operating expenses consist of those expenses incurred in the operation and management of adult correctional and detention facilities, and for our inmate transportation subsidiary.

Fixed expenses per compensated man-day during the year ended December 31, 2009 increased 2.6% from $29.76 in 2008 to $30.54 in 2009 primarily as a result of an increase in salaries and benefits. Salaries and benefits represent the most significant component of fixed operating expenses, representing approximately 64% of our operating expenses. During 2009, salaries and benefits expense at our correctional and detention facilities increased $46.6 million from 2008, most notably as a result of an increase in staffing levels in anticipation of receiving inmates at our newly opened North Georgia facility from ICE, at our Adams County facility from the BOP, and at our La Palma and Tallahatchie facilities as a result of an increase in beds utilized from the state of California at these two facilities. Operating expenses per compensated man-day were also negatively impacted by operational inefficiencies associated with our inventory of available beds.

The operation of the facilities we own carries a higher degree of risk associated with a management contract than the operation of the facilities we manage but do not own because we incur significant capital expenditures to construct or acquire facilities we own. Additionally, correctional and detention facilities have a limited or no alternative use. Therefore, if a management contract is terminated at a facility we own, we continue to incur certain operating expenses, such as real estate taxes, utilities, and insurance, that we would not incur if a management contract was terminated for a managed-only facility. As a result, revenue per compensated man-day is typically higher for facilities we own and manage than for managed-only facilities. Because we incur higher expenses, such as repairs and maintenance, real estate taxes, and insurance, on the facilities we own and manage, our cost structure for facilities we own and manage is also higher than the cost structure for the managed-only facilities. The following tables display the revenue and expenses per compensated man-day for the facilities placed into service that we own and manage and for the facilities we manage but do not own:

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	For the Years Ended December 31,	
	2009	2008
Owned and Managed Facilities:		
Revenue per compensated man-day	**$ 66.79**	$ 65.85
Operating expenses per compensated man-day:		
Fixed expense	**32.79**	31.96
Variable expense	**10.46**	10.79
Total	**43.25**	42.75
Operating margin per compensated man-day	**$ 23.54**	$ 23.10
Operating margin	**35.2%**	35.1%
Average compensated occupancy	**88.3%**	94.5%
Average available beds	**61,051**	53,990
Average compensated population	**53,893**	51,005
Managed Only Facilities:		
Revenue per compensated man-day	**$ 39.52**	$ 39.36
Operating expenses per compensated man-day:		
Fixed expense	**25.55**	25.07
Variable expense	**8.80**	8.58
Total	**34.35**	33.65
Operating margin per compensated man-day	**$ 5.17**	$ 5.71
Operating margin	**13.1%**	14.5%
Average compensated occupancy	**96.6%**	97.7%
Average available beds	**25,101**	24,522
Average compensated population	**24,238**	23,965

Owned and Managed Facilities

Our operating margins at owned and managed facilities for the year ended December 31, 2009 increased slightly to 35.2% compared with 35.1% for 2008. Facility contribution, or the operating income before interest, taxes, depreciation and amortization, at our owned and managed facilities increased $31.8 million, from $431.2 million during the year ended December 31, 2008 to $463.0 million during the year ended December 31, 2009, an increase of 7.4%. The increase in facility contribution at our owned and managed facilities is largely the result of the increase in the average compensated population during 2009 of 5.7% over 2008. The increase in average compensated population was largely the result of placing into service our La Palma Correctional Center during the second half of 2008 and the

completion of approximately 1,500 expansion beds at our Tallahatchie County Correctional Facility where the state of California transferred inmates under the contract described hereafter to each of those facilities. The commencement of operations during the third quarter of 2009 at our newly constructed Adams County facility also contributed to the increase in average compensated population.

The most notable increases in compensated population during the year ended December 31, 2009 occurred at the La Palma Correctional Center which opened during 2008 and the Tallahatchie facility resulting from the receipt of additional inmate populations from the state of California. Our total

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revenues increased by $72.7 million at these two facilities during the year ended December 31, 2009 compared to the same period in the prior year.

In November 2009, we announced that we entered into an amendment of our agreement with the State of California Department of Corrections and Rehabilitation (the CDCR) providing the CDCR the ability to house up to 10,468 inmates in five of the facilities we own, an increase from 8,132 inmates under our previous agreement. The agreement, which is subject to appropriations by the California legislature, expires June 30, 2011. As of December 31, 2009, we held approximately 8,000 inmates from the state of California. We began receiving additional inmates pursuant to the amendment during the first quarter of 2010, with a gradual ramp-up estimated to be completed during the first quarter of 2011.

We remain optimistic that the state of California will continue to utilize out-of-state beds to alleviate its severe overcrowding situation. However, several legal proceedings have challenged the State s ability to send inmates out-of-state. Legislative enactments or additional legal proceedings, including a proceeding under federal jurisdiction that could potentially reduce the number of inmates in the California prison system, may impact the out-of-state transfer of inmates or could result in the return of inmates we currently house for the CDCR. Further, the expiration of the statutory authority to transfer California inmates to out-of-state private correctional facilities coincides with the expiration of our management contract on June 30, 2011. If transfers from California are limited as a result of one or more of these proceedings, or if the authority to transfer inmates out-of-state to our facilities is not extended upon expiration, we would market the beds housed by the CDCR to other federal and state customers. The return of the California inmates to the state of California would have a significant adverse impact on our financial position, results of operations, and cash flows.

In March 2009, we announced that the state of Arizona awarded us a contract to manage up to 752 Arizona inmates at our 752-bed Huerfano County Correctional Center in Colorado. The contract includes an initial term ending March 9, 2010. During the second quarter of 2009, we completed the relocation of approximately 600 Colorado inmates previously housed at the Huerfano facility to our three other Colorado facilities and also completed the process of receiving the new inmates from Arizona. On January 15, 2010, the Arizona Governor and Legislature proposed budgets that would phase out the utilization of private out-of-state beds due to in-state capacity coming on-line and severe budget conditions. During January 2010, the Arizona Department of Corrections notified us of its election not to renew its contract at our Huerfano facility. Arizona expects to begin transferring offenders from the Huerfano facility beginning on March 10, 2010 and expects to complete the transfer on March 22, 2010. As a result of this notification, we intend to idle the Huerfano facility shortly thereafter, but will continue marketing the facility to other customers.

We also have a management contract with the state of Arizona at our 2,160-bed Diamondback Correctional Facility in Oklahoma, which is scheduled to expire May 1, 2010. We have not received any updates from Arizona regarding its contract at our Diamondback facility, but the risk remains that Arizona may return the offenders housed at the Diamondback facility to the state of Arizona. If Arizona does not renew its contract at the Diamondback facility, we would likely idle the facility. During 2009, we generated $56.5 million in management revenue from the state of Arizona under both of these contracts.

In April 2009, we announced that we had been awarded a contract with the BOP to house up to 2,567 federal inmates at our recently completed 2,232-bed Adams County Correctional Center in Mississippi. The four-year contract, awarded as part of the Criminal Alien Requirement 8 Solicitation (CAR 8), also provides for up to three two-year renewal options and includes contract provisions that are materially comparable to our other contracts with the BOP, including a 50% guarantee of occupancy during the activation period and a 90% guarantee once the average monthly population at the facility

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exceeds 50%. During the first half of 2009, we incurred start-up costs of $2.8 million in preparation for the commencement of operations. We received a Notice to Proceed in July 2009 and began receiving inmates during the third quarter of 2009, which is expected to have a favorable impact on our operating margins in future quarters.

During the third quarter of 2009, we were notified by the Alaska Department of Corrections that we were not selected in Alaska s competitive solicitation to house up to 1,000 inmates from the state of Alaska. During the fourth quarter of 2009, the state of Alaska completed the transfer of their inmate population out of the Red Rock facility. As of December 31, 2009, we housed 880 inmates from the states of California, Washington, and Hawaii at the Red Rock facility. We expect the state of California to utilize the beds that will be vacated by Alaska pursuant to the aforementioned amended agreement with the CDCR.

We have been housing non-criminal families, along with a small population of females, at our T. Don Hutto Residential Center located in Taylor, Texas, since May 2006. Based on a change in ICE policy of detaining families at the T. Don Hutto facility, during the third quarter of 2009 we renegotiated a short-term agreement with ICE effective September 1, 2009 to house low custody female detainees rather than families at this facility resulting in a lower per diem rate, as well as other terms and conditions that are more representative of the requirements of this new population, which has negatively impacted our results of operations since the effective date. The term of this agreement expired December 31, 2009. In January 2010, we received an Intergovernmental Service Agreement between ICE and Williamson County, Texas to manage up to 512 female detainees at our T. Don Hutto Residential Center. The new agreement contains an initial term of up to five years that is renewable upon mutual agreement and contains a 90% guarantee of occupancy. As of December 31, 2009, we housed approximately 500 detainees at this facility.

During December 2009, we announced our decision to cease operations at our 1,600-bed Prairie Correctional Facility on or about February 1, 2010 due to low inmate populations at the facility. During 2009, our Prairie facility housed offenders from the states of Minnesota and Washington. However, due to excess capacity in the states systems, both states have been reducing the populations held at Prairie. The final transfer of offenders back to the state of Minnesota from the Prairie facility was completed on January 26, 2010. The state of Washington has removed all of its offenders from the Prairie facility, but maintains a population of approximately 125 inmates in two other facilities we own in Arizona. Total revenues at the Prairie facility were $15.9 million and $34.0 million during the years ended December 31, 2009 and 2008, respectively. We are currently pursuing new management contracts to take advantage of the beds that became available at the Prairie facility but can provide no assurance that we will be successful in doing so.

During January 2010, we announced that pursuant to the Criminal Alien Requirement 10 Solicitation (CAR 10) our 2,304-bed California City Correctional Center in California was not selected for the continued management of the federal offenders currently located at this facility. The current contract with the BOP at the California City facility expires on September 30, 2010. We currently expect the BOP to transfer all inmates out of the facility by the end of the third quarter of 2010. We are also pursuing other opportunities for our California City facility. Total revenues at the California City facility were $68.7 million and $67.7 million during the years ended December 31, 2009 and 2008, respectively.

Managed-Only Facilities

Our operating margins decreased at managed-only facilities during the year ended December 31, 2009 to 13.1% from 14.5% during the year ended December 31, 2008. The managed-only business remains very competitive which continues to put pressure on per diems resulting in only marginal increases in

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the managed-only revenue per compensated man-day. Revenue per compensated man-day increased 0.4% during the year ended December 31, 2009 compared with the prior year.

Operating expenses per compensated man-day increased 2.1% to $34.35 during the year ended December 31, 2009 from $33.65 during the prior year. The increase in operating expenses per compensated man-day was caused in part by an increase in salaries and benefits largely due to salary increases mid-2008. Operating expenses per compensated man-day also increased as a result of rent and start-up expenses incurred at the North Georgia Detention Center during the second half of 2009 in anticipation of receiving detainees from ICE during the fourth quarter of 2009, pursuant to a new management contract as further described hereafter. Additionally, we experienced an increase in legal expenses at managed-only facilities during 2009 compared with 2008. Expenses associated with legal proceedings may fluctuate from quarter to quarter based on new or threatened litigation, changes in our assumptions, new developments, or the effectiveness of our litigation and settlement strategies. These increases were partially offset by reductions in other operating expenses such as utility expense resulting from a reduction in energy rates across our portfolio of managed-only facilities in the current year compared with the same period in 2008.

Although the managed-only business is attractive because it requires little or no upfront investment and relatively modest ongoing capital expenditures, we expect the managed-only business to remain competitive. Any reductions to our per diem rates or the lack of per diem increases at managed-only facilities would likely result in a further deterioration in our operating margins.

During the years ended December 31, 2009 and 2008, managed-only facilities generated 9.0% and 10.4%, respectively, of our total facility contribution. We define facility contribution as a facility s operating income or loss before interest, taxes, goodwill impairment, depreciation, and amortization.

In March 2009, we announced a new contract to manage detainee populations for ICE at the North Georgia Detention Center in Hall County, Georgia, which has a total design capacity of 502 beds. Under a five-year Intergovernmental Service Agreement between Hall County, Georgia and ICE, we will house up to 500 ICE detainees at the facility. We have entered into a lease for the former Hall County Jail from Hall County, Georgia. The lease has an initial term of 20 years with two five-year renewal options and provides us the ability to cancel the lease if we do not have a management contract. We placed the beds into service during the third quarter of 2009 and began receiving detainees during the fourth quarter of 2009. Although this facility contributed to the reduction in operating margins during 2009 compared with the same period in 2008, the commencement of operations is expected to have a favorable impact on our operating margins in the managed-only segment once full occupancy is reached.

General and administrative expense

For the years ended December 31, 2009 and 2008, general and administrative expenses totaled $86.5 million and $80.3 million, respectively. General and administrative expenses consist primarily of corporate management salaries and benefits, professional fees, and other administrative expenses. General and administrative expenses increased from 2008 primarily as a result of a $4.2 million consulting fee associated with a company-wide initiative to improve operational efficiency. General and administrative expenses during 2009 also included a $1.5 million accrual for the contractual severance benefit for our former Chief Executive Officer who announced his decision to step down in August 2009.

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Depreciation and amortization

For the years ended December 31, 2009 and 2008, depreciation and amortization expense totaled $100.8 million and $90.6 million, respectively. The increase in depreciation and amortization from 2008 resulted primarily from additional depreciation expense recorded on various completed facility expansion and development projects, most notably our La Palma Correctional Center and our Adams County Correctional Center, and the additional depreciation on our expansion projects and other capital expenditures.

Interest expense, net

Interest expense was reported net of interest income and capitalized interest for the years ended December 31, 2009 and 2008. Gross interest expense, net of capitalized interest, was $75.5 million and $62.8 million, respectively, for the years ended December 31, 2009 and 2008. Gross interest expense during these periods was based on outstanding borrowings under our revolving credit facility, our outstanding senior notes, and amortization of loan costs and unused facility fees. We expect gross interest expense to increase in the future as we utilize our revolving credit facility to fund our stock repurchase program and/or additional expansion and development projects. Additionally, the repayment of our $450.0 million 7.5% senior notes with the net proceeds from the issuance in June 2009 of our $465.0 million 7.75% senior notes, which were issued at a discount to par resulting in a yield to maturity of 8.25%, will result in an increase in interest expense compared with prior periods. However, as further described hereafter, this refinancing extended our debt maturities and provides us with more financial flexibility to take advantage of opportunities that may require additional capital. Further, we have benefited from relatively low interest rates on our revolving credit facility, which is largely based on the London Interbank Offered Rate (LIBOR). It is possible that LIBOR could increase in the future.

Gross interest income was $2.7 million and $3.4 million, respectively, for the years ended December 31, 2009 and 2008. Gross interest income is earned on cash collateral requirements, a direct financing lease, notes receivable, investments, and cash and cash equivalents, and decreased due to lower interest rates on cash and investment balances, which were used to fund our stock repurchase program as well as our expansion and development projects.

Capitalized interest was $1.6 million and $13.5 million during 2009 and 2008, respectively, and was associated with various construction and expansion projects further described under Liquidity and Capital Resources hereafter.

Expenses associated with debt refinancing transactions

As further described hereafter, in June 2009, we used the net proceeds from the sale and issuance of our new $465.0 million 7.75% senior notes to purchase, redeem, or otherwise acquire our $450.0 million 7.5% senior notes. A substantial portion of the notes were repaid in connection with a tender offer for such notes announced in May 2009. In connection with the refinancing, we incurred a charge of $3.8 million, consisting of the tender premium paid to the note holders who validly tendered their notes, fees, along with expenses associated with the tender offer, and write-off of loan coast and debt premium associated with the 7.5% senior notes.

Income tax expense

During the years ended December 31, 2009 and 2008, our financial statements reflected an income tax provision of $81.7 million and $90.9 million, respectively, and our effective tax rate was approximately 34.4% and 37.7% during the years ended December 31, 2009 and 2008, respectively.

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Income tax expense during the year ended December 31, 2009 includes an income tax benefit of $5.7 million for the reversal of a liability for uncertain tax positions that were effectively settled upon the completion of an audit by the Internal Revenue Service during the third quarter of 2009. Our effective tax rate is estimated based on our current projection of taxable income and could fluctuate based on changes in these estimates, the implementation of tax strategies, changes in federal or state tax rates, changes in tax laws, changes in estimates related to uncertain tax positions, or changes in state apportionment factors, as well as changes in the valuation allowance applied to our deferred tax assets that are based primarily on the amount of state net operating losses and tax credits that could expire unused.

Discontinued operations

As a result of Shelby County s evolving relationship with the Tennessee Department of Children s Services (DCS) whereby DCS prefers to oversee the juveniles at facilities under DCS control, we ceased operations of the 200-bed Shelby Training Center located in Memphis, Tennessee in August 2008. We reclassified the results of operations, net of taxes, and the assets and liabilities of this facility, excluding property and equipment, as discontinued operations upon termination of the management contract during the third quarter of 2008. The property and equipment of this facility will continue to be reported as continuing operations, as we retained ownership of the building and equipment and completed the purchase of the land during the fourth quarter of 2008 from Shelby County, Tennessee for $150,000. The Shelby Training Center operated at break-even during the year ended December 31, 2008.

In May 2008, we notified the Bay County Commission of our intention to exercise our option to terminate the operational management contract for the 1,150-bed Bay County Jail and Annex in Panama City, Florida, effective October 9, 2008. The Bay County Jail and Annex incurred a loss of $0.7 million (primarily pertaining to negative developments in outstanding legal matters) and $1.0 million, net of taxes, during the years ended December 31, 2009 and 2008, respectively.

Pursuant to a re-bid of the management contracts, during September 2008, we were notified by the Texas Department of Criminal Justice (TDCJ) of its intent to transfer the management of the 500-bed B.M. Moore Correctional Center in Overton, Texas and the 518-bed Diboll Correctional Center in Diboll, Texas to another operator, upon the expiration of the management contracts on January 16, 2009. Both of these facilities are owned by the TDCJ. Accordingly, the results of operations, net of taxes, and the assets and liabilities of these two facilities are reported as discontinued operations upon termination of operations in the first quarter of 2009 for all periods presented. These two facilities operated at a loss of $0.1 million, net of taxes, for the year ended December 31, 2009. These two facilities operated at a profit of $0.6 million, net of taxes, for the year ended December 31, 2008.

During December 2008, we were notified by Hamilton County, Ohio of its intent to terminate the lease for the 850-bed Queensgate Correctional Facility located in Cincinnati, Ohio. The County elected to terminate the lease due to funding issues being experienced by the County. Accordingly, upon termination of the lease in the first quarter of 2009, we reclassified the results of operations, net of taxes, of this facility as discontinued operations for all periods presented. The property and equipment of this facility will continue to be reported as continuing operations, as the Company retained ownership of the land, building, and equipment. The lease with Hamilton County generated a profit of $1.4 million, net of taxes, for the year ended December 31, 2008.

Year Ended December 31, 2008 Compared to Year Ended December 31, 2007

During the year ended December 31, 2008, we generated net income of $150.9 million, or $1.20 per diluted share, compared with net income of $133.4 million, or $1.06 per diluted share, for the previous

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year. Contributing to the increase in net income for 2008 compared to the previous year was an increase in operating income of $36.8 million, from $263.8 million during 2007 to $300.6 million during 2008 as a result of an increase in occupancy levels and new management contracts, partially offset by an increase in general and administrative expenses and depreciation and amortization.

Facility Operations

Revenue and expenses per compensated man-day for all of the facilities we owned or managed, exclusive of those discontinued (see further discussion below regarding discontinued operations), were as follows for the years ended December 31, 2008 and 2007:

	For the Years Ended December 31,	
	2008	2007
Revenue per compensated man-day	**$ 57.39**	$ 54.94
Operating expenses per compensated man-day:		
Fixed expense	**29.76**	28.61
Variable expense	**10.08**	10.06
Total	**39.84**	38.67
Operating margin per compensated man-day	**$ 17.55**	$ 16.27
Operating margin	**30.6%**	29.6%
Average compensated occupancy	**95.5%**	98.2%
Average available beds	**78,512**	72,326
Average compensated population	**74,970**	71,034

Our operating margins for the year ended December 31, 2008 increased to 30.6% compared with 29.6% for the prior year. The increase in operating margins is largely the result of the increase in the average compensated population during the year ended December 31, 2008 as compared to the prior year. Also contributing to the increased operating margin during 2008, our revenue per compensated man-day increased 4.5% from $54.94 during 2007 to $57.39 during 2008. This increase in revenue per compensated man-day resulted from new contracts at higher average per diems than on existing contracts and from per diem increases we received on existing contracts.

Average compensated population increased 3,936 from 71,034 during the year ended December 31, 2007 to 74,970 during the year ended December 31, 2008. The increase in average compensated population resulted primarily from the placement of 6,886 expansion beds into service since January 2007, and the opening and subsequent ramp-up in populations at our 1,896-bed Saguaro Correctional Facility in June 2007. Further, we also commenced operation at our La Palma Correctional Center by placing 2,040 beds into service during the third and fourth quarters of 2008 and substantially filled those beds with inmates from the state of California.

Our total facility management revenue increased by $150.2 million, or 10.5%, during 2008 compared with 2007 resulting primarily from an increase in revenue of approximately $78.9 million generated by an increase in the average daily compensated population during 2008. The remaining increase in facility management revenue was primarily driven by the rate increase of 4.5% in the average revenue per compensated man-day resulting from per diem increases as well as new contracts at higher than average per diem rates than existing contracts.

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State revenues increased $111.9 million, or 15.8%, from $708.3 million for the year ended December 31, 2007 to $820.1 million for the year ended December 31, 2008. State revenues increased as certain states, such as the state of California, turned to the private sector to help alleviate their overcrowding situations, while other states utilized additional bed capacity we constructed for them or contracted to utilize additional beds at our facilities. We were also successful in achieving certain per diem increases caused by a strong demand for prison beds.

Business from our federal customers, including the BOP, the USMS, and ICE, continues to be a significant component of our business, increasing $35.3 million, or 5.9% from $593.6 million in 2007 to $628.9 million in 2008. Our federal customers generated 40% and 41% of our total revenue for the years ended December 31, 2008 and 2007, respectively. Similar to business from our state customers, we were successful in achieving per diem increases under several of our federal management contracts as a result of a strong demand for prison beds.

Operating expenses totaled $1,112.7 million and $1,025.0 million for the years ended December 31, 2008 and 2007, respectively. Operating expenses consist of those expenses incurred in the operation and management of adult correctional and detention facilities, and for our inmate transportation subsidiary.

Fixed expenses per compensated man-day during the year ended December 31, 2008 increased 4.0% from $28.61 in 2007 to $29.76 in 2008 primarily as a result of an increase in salaries and benefits. Salaries and benefits represent the most significant component of fixed operating expenses, representing approximately 64% of our operating expenses. During 2008, salaries and benefits expense at our correctional and detention facilities increased $65.0 million from 2007, most notably as a result of an increase in staffing levels at the aforementioned facilities such as our Saguaro facility that opened in June 2007, our La Palma facility that opened in July 2008, and at our North Fork and Tallahatchie facilities where expansion beds were placed into service.

The following tables display the revenue and expenses per compensated man-day for the facilities placed into service that we own and manage and for the facilities we manage but do not own:

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	For the Years Ended December 31,	
	2008	2007
Owned and Managed Facilities:		
Revenue per compensated man-day	**$ 65.85**	$ 63.01
Operating expenses per compensated man-day:		
Fixed expense	**31.96**	30.67
Variable expense	**10.79**	10.79
Total	**42.75**	41.46
Operating margin per compensated man-day	**$ 23.10**	$ 21.55
Operating margin	**35.1%**	34.2%
Average compensated occupancy	**94.5%**	98.3%
Average available beds	**53,990**	48,292
Average compensated population	**51,005**	47,450
Managed Only Facilities:		
Revenue per compensated man-day	**$ 39.36**	$ 38.70
Operating expenses per compensated man-day:		
Fixed expense	**25.07**	24.47
Variable expense	**8.58**	8.59
Total	**33.65**	33.06
Operating margin per compensated man-day	**$ 5.71**	$ 5.64
Operating margin	**14.5%**	14.6%
Average compensated occupancy	**97.7%**	98.1%
Average available beds	**24,522**	24,034
Average compensated population	**23,965**	23,584

Owned and Managed Facilities

Our operating margins at owned and managed facilities for the year ended December 31, 2008 increased to 35.1% compared with 34.2% for 2007. The increase in operating margins at our owned and managed facilities is primarily attributable to the increase in the average compensated population during the year ended December 31, 2008 as compared to the prior year. The increase in average compensated population was largely the result of placing into service our 1,896-bed Saguaro Correctional Facility in June 2007, placing 2,040 beds into service at our La Palma Correctional Center during July and October 2008, and the completion of approximately 2,500 expansion beds at our North Fork Correctional Facility and Tallahatchie County Correctional Facility. Further, the aforementioned demand

experienced with our federal and state customers has resulted in an increase in the overall average revenue per compensated man-day resulting from new contracts at higher average per diem rates than on existing contracts and from annual per diem increases.

The most notable increases in inmate populations during 2008 occurred at the Saguaro Correctional Facility, which opened in 2007, the La Palma Correctional Center, which opened during 2008, and the North Fork facility resulting from higher inmate populations from various existing state customers, and the Tallahatchie facility resulting from the receipt of inmate populations from the state of California.

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Our total revenues increased by $78.0 million at these four facilities during the year ended December 31, 2008 compared to the prior year.

The Saguaro Correctional Facility was constructed to provide the state of Hawaii the opportunity to consolidate its inmate populations into fewer facilities, while providing us with an additional supply of beds to meet anticipated demand. We completed construction of the Saguaro Correctional Facility in June 2007. While the consolidation of inmates from Hawaii did not result in a significant increase in total inmate populations, the consolidation created additional capacity at our Diamondback and Tallahatchie facilities, which was substantially utilized by additional inmate populations from the states of Arizona and California, respectively, pursuant to new management contracts. The consolidation also created additional capacity at our Red Rock Correctional Center, which was substantially utilized with additional inmate populations from the state of California during the second quarter of 2008.

On October 5, 2007, we announced that we had entered into a new agreement with the State of California Department of Corrections and Rehabilitation, or CDCR, for the housing of up to 7,772 inmates from the state of California. In January 2008 and in November 2009, this agreement was further amended to allow for an additional 360 and 2,336 CDCR inmates, respectively. As a result, we now have a contract that provides the CDCR with the ability to house up to 10,468 inmates in five of the facilities we own. The new agreement, which is subject to appropriations by the California legislature, expires June 30, 2011. As of December 31, 2008, we held approximately 6,200 inmates from the state of California.

In October 2007, we announced that we would begin construction of our new 3,060-bed La Palma Correctional Center, which is currently being fully utilized by the CDCR. We completed construction of the new La Palma Correctional Center during the first quarter of 2009 at an estimated total cost of $200.0 million. However, we opened a portion of the new facility and began receiving inmates from the state of California during the third quarter of 2008.

As a result of weakness in inmate populations from the District of Columbia, the 1,500-bed D.C. Correctional Treatment Facility experienced a decline in occupancy from 72% during 2007 to 62% during 2008, negatively impacting margins on our owned and managed business. The 1,600-bed Prairie Correctional Facility also experienced a reduction in inmate populations resulting from the state of Minnesota opening a new state facility which resulted in the transfer of approximately 300 Minnesota inmates back to the state facility since August 2008. These inmate transfers resulted in a decline in revenue and operating margin at the Prairie facility.

Managed-Only Facilities

Our operating margins decreased slightly at managed-only facilities during the year ended December 31, 2008 to 14.5% from 14.6% during the year ended December 31, 2007. The managed-only business remains very competitive which continues to put pressure on per diems resulting in only marginal increases in the managed-only revenue per compensated man-day. Revenue per compensated man-day increased 1.7% during the year ended December 31, 2008 compared with the prior year.

Operating expenses per compensated man-day increased 1.8% to $33.65 during the year ended December 31, 2008 from $33.06 during the prior year. The increase in operating expenses per compensated man-day was caused in part by an increase in salaries and benefits largely due to annual salary increases. Additionally, we experienced an increase in legal expenses at managed-only facilities during 2008 compared with 2007. Expenses associated with legal proceedings may fluctuate from quarter to quarter based on new or threatened litigation, changes in our assumptions, new developments, or the effectiveness of our litigation and settlement strategies.

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Although the managed-only business is attractive because it requires little or no upfront investment and relatively modest ongoing capital expenditures, we expect the managed-only business to remain competitive. Any reductions to our per diem rates or the lack of per diem increases at managed-only facilities would likely result in a further deterioration in our operating margins.

During the years ended December 31, 2008 and 2007, managed-only facilities generated 10.4% and 11.5%, respectively, of our total facility contribution. We define facility contribution as a facility s operating income or loss before interest, taxes, goodwill impairment, depreciation, and amortization.

In April 2008, we agreed with the New Mexico Department of Corrections to suspend operations of the 192-bed Camino Nuevo Correctional Center in Albuquerque, New Mexico, and transfer existing populations to our New Mexico Women s Correctional Facility in Grants, New Mexico. Operations were suspended due to consistently low inmate populations that were not adequate to maintain efficient operations. During the third quarter of 2008, we mutually agreed with the New Mexico Department of Corrections to terminate the management contract for the Camino Nuevo Correctional Center. The Camino Nuevo facility operated at a loss of $0.6 million and an operating profit $0.1 million during the years ended December 31, 2008 and 2007, respectively, inclusive of depreciation expense.

General and administrative expense

For the years ended December 31, 2008 and 2007, general and administrative expenses totaled $80.3 million and $74.4 million, respectively. General and administrative expenses consist primarily of corporate management salaries and benefits, professional fees and other administrative expenses. General and administrative expenses increased from 2007 primarily as a result of an increase in salaries and benefits resulting from an increase in corporate staffing levels to help ensure the quality and effectiveness of our facility operations and to intensify our efforts on developing new bed capacity. Also as a result of our intensified efforts to develop new capacity, we incurred charges of $1.7 million during 2008 in connection with the abandonment of certain development projects. We incurred $0.3 million of such expenses in 2007.

General and administrative expenses were also higher as a result of an increase of $2.0 million of stock-based compensation awarded to employees. For the year ended December 31, 2008, we recognized approximately $8.5 million of general and administrative expense for stock-based compensation compared with $6.5 million of stock-based compensation expense recognized during the year ended December 31, 2007.

Depreciation and amortization

For the years ended December 31, 2008 and 2007, depreciation and amortization expense totaled $90.6 million and $78.4 million, respectively. The increase in depreciation and amortization from 2007 resulted primarily from additional depreciation expense recorded on various completed facility expansion and development projects, most notably our Saguaro Correctional Facility placed into service in June 2007 and our La Palma Correctional Center where we activated 1,020 beds in July 2008 and another 1,020 beds in October 2008.

Goodwill impairment

During the fourth quarter of 2007, in connection with our annual budgeting process and annual goodwill impairment analysis, we recognized a goodwill impairment charge of $1.6 million related to the management of two of our managed-only facilities. This impairment charge resulted from poor operating performance combined with an unfavorable forecast of future cash flows under the current management contracts at these facilities. The impairment charge was computed using a discounted

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cash flow method. During 2008, we exercised our option to terminate one of the management contracts upon expiration of the contract in the fourth quarter of 2008, and thus the goodwill impairment charge was reported as discontinued operations as discussed further hereafter.

Interest expense, net

Interest expense was reported net of interest income and capitalized interest for the years ended December 31, 2008 and 2007. Gross interest expense, net of capitalized interest, was $62.8 million and $64.5 million, respectively, for the years ended December 31, 2008 and 2007. Gross interest expense during these periods was based on outstanding borrowings under our revolving credit facility, our outstanding senior notes, and amortization of loan costs and unused facility fees.

Gross interest income was $3.4 million and $10.8 million, respectively, for the years ended December 31, 2008 and 2007. Gross interest income is earned on cash collateral requirements, a direct financing lease, notes receivable, investments, and cash and cash equivalents, and decreased due to lower cash and investment balances during 2008 compared with 2007 which were used to fund our expansion and development projects.

Capitalized interest was $13.5 million and $7.6 million during 2008 and 2007, respectively, and was associated with various construction and expansion projects further described under Liquidity and Capital Resources hereafter.

Income tax expense

During the years ended December 31, 2008 and 2007, our financial statements reflected an income tax provision of $90.9 million and $79.4 million, respectively, and our effective tax rate was approximately 37.7% during both the years. Our annual effective tax rate in 2008 was consistent with the effective tax rate in 2007, as increases in our projected taxable income in states with higher statutory tax rates and the full year impact of an adverse change in Texas tax law were substantially offset by an increase in state tax credits resulting from certain tax planning strategies. Our effective tax rate is estimated based on our current projection of taxable income and could fluctuate based on changes in these estimates, the implementation of tax strategies, changes in federal or state tax rates, changes in tax laws, or changes in state apportionment factors, as well as changes in the valuation allowance applied to our deferred tax assets that are based primarily on the amount of state net operating losses and tax credits that could expire unused.

Discontinued operations

As a result of Shelby County s evolving relationship with the Tennessee Department of Children s Services (DCS) whereby DCS prefers to oversee the juveniles at facilities under DCS control, we ceased operations of the 200-bed Shelby Training Center located in Memphis, Tennessee in August 2008. We reclassified the results of operations, net of taxes, and the assets and liabilities of this facility, excluding property and equipment, as discontinued operations upon termination of the management contract during the third quarter of 2008. The property and equipment of this facility will continue to be reported as continuing operations, as we retained ownership of the building and equipment and completed the purchase of the land during the fourth quarter of 2008 from Shelby County, Tennessee for $150,000. The Shelby Training Center operated at break-even and generated a profit of $0.5 million, net of taxes, during the years ended December 31, 2008 and 2007, respectively.

In May 2008, we notified the Bay County Commission of our intention to exercise our option to terminate the operational management contract for the 1,150-bed Bay County Jail and Annex in Panama City, Florida, effective October 9, 2008. The Bay County Jail and Annex incurred a loss of

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$1.0 million and a profit of $0.1 million, net of taxes, during the years ended December 31, 2008 and 2007, respectively.

Pursuant to a re-bid of the management contracts, during September 2008, we were notified by the Texas Department of Criminal Justice (TDCJ) of its intent to transfer the management of the 500-bed B.M. Moore Correctional Center in Overton, Texas and the 518-bed Diboll Correctional Center in Diboll, Texas to another operator, upon the expiration of the management contracts on January 16, 2009. Both of these facilities are owned by the TDCJ. Accordingly, the results of operations, net of taxes, and the assets and liabilities of these two facilities are reported as discontinued operations upon termination of operations in the first quarter of 2009 for all periods presented. These two facilities operated at a profit of $0.6 million and $0.5 million, net of taxes, for the years ended December 31, 2008 and 2007, respectively.

During December 2008, we were notified by Hamilton County, Ohio of its intent to terminate the lease for the 850-bed Queensgate Correctional Facility located in Cincinnati, Ohio. The County elected to terminate the lease due to funding issues being experienced by the County. Accordingly, upon termination of the lease in the first quarter of 2009, we reclassified the results of operations, net of taxes, of this facility as discontinued operations for all periods presented. The property and equipment of this facility will continue to be reported as continuing operations, as we retained ownership of the land, building, and equipment. The lease with Hamilton County generated a profit of $1.4 million and $1.3 million, net of taxes, for the years ended December 31, 2008 and 2007, respectively.

LIQUIDITY AND CAPITAL RESOURCES

Our principal capital requirements are for working capital, capital expenditures, and debt service payments. Capital requirements may also include cash expenditures associated with our outstanding commitments and contingencies, as further discussed in the notes to our financial statements. Additionally, we may incur capital expenditures to expand the design capacity of certain of our facilities (in order to retain management contracts) and to increase our inmate bed capacity for anticipated demand from current and future customers. We may acquire additional correctional facilities that we believe have favorable investment returns and increase value to our stockholders. We also regularly evaluate the most efficient use of our capital resources and respond to changes in market conditions, by taking advantage of opportunities to use our capital resources to repurchase our common stock at prices which would equal or exceed the rates of return when we invest in new beds. We will also consider opportunities for growth, including potential acquisitions of businesses within our line of business and those that provide complementary services, provided we believe such opportunities will broaden our market share and/or increase the services we can provide to our customers.

In May 2008, we announced that we were awarded a contract by the OFDT to design, build, and operate a new correctional facility located in Pahrump, Nevada, approximately 65 miles outside of Las Vegas, Nevada. Our new 1,072-bed Nevada Southern Detention Center is expected to house approximately 1,000 federal prisoners. The contract provides for a guarantee of up to 750 prisoners and includes an initial term of five years with three five-year renewal options. In order to expedite completion of the development, we purchased the land and began to incur design and other pre-construction costs associated with this development. During April 2009, the OFDT authorized us to commence construction of the new Nevada Southern Detention Center. We currently expect construction to be complete during the third quarter of 2010, at an estimated cost of $83.5 million. As of December 31, 2009, the remaining costs to complete construction totaled approximately $33.7 million.

In July 2009, we announced that we had been awarded an amendment to our existing contracts with the Georgia Department of Corrections to expand two of our existing facilities by 1,500 beds. The award

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satisfied a competitive Request for Proposal of 1,500 beds from the state of Georgia that was issued in October of 2008. As of December 31, 2009, we housed approximately 3,400 inmates from the state of Georgia. As a result of the award, we will expand our 1,524-bed Coffee Correctional Facility by 788 beds and our 1,524 bed Wheeler Correctional Facility by 712 beds. The expansions are estimated to cost approximately $65.0 million and are currently anticipated to be completed during the third quarter of 2010, at which point we expect to begin receiving the incremental inmates. As of December 31, 2009, the remaining costs to complete construction totaled approximately $40.2 million. The amended contracts expire June 30, 2010 and include twenty-four one-year remaining renewal options. In addition to the guarantee on the existing beds at both facilities, the amended contracts contain a 90% guarantee on the expansion beds.

In addition, during February 2008, we announced our intention to construct our new 2,040-bed Trousdale Correctional Center in Trousdale County, Tennessee. However, we have temporarily suspended the construction of this facility until we have greater clarity around the timing of future bed absorption by our customers. We will continue to monitor our customers needs, and could promptly resume construction of the facility.

In addition to the foregoing, the following expansions and development projects were completed during 2008 and 2009. Costs include pre-acquisition costs (as applicable), land acquisition costs, design and construction costs, capitalized interest, as well as furniture, fixtures, and equipment required to operate the beds:

Facility	No. of beds	Completion date	Cost (in thousands)
Eden Detention Center Eden, TX	129	First quarter 2008	$ 19,500(1)
Kit Carson Correctional Center Burlington, CO	720	First quarter 2008	42,000
Tallahatchie County Correctional Facility	720	Second quarter 2008	45,500
Tutwiler, MS	128	Fourth quarter 2008	8,000
Bent County Correctional Facility Las Animas, CO	720	Second quarter 2008	45,000
Leavenworth Detention Center Leavenworth, KS	266	Second quarter 2008	21,000(2)
Davis Correctional Facility Holdenville, OK	660	Third quarter 2008	40,000
Cimarron Correctional Facility Cushing, OK	660	Fourth quarter 2008	40,000
Adams County Correctional Center Adams County, MS	2,232	Fourth quarter 2008	126,000
La Palma Correctional Center Eloy, AZ	3,060	First quarter 2009	200,000
Total	9,295		$ 587,000

(1) The cost included a renovation of the facility pursuant to a new contract award from the BOP to house up to 1,558 federal inmates.

(2) The cost for this expansion included a renovation of the existing building infrastructure to accommodate higher inmate populations.

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In order to retain federal inmate populations we currently manage in the San Diego Correctional Facility, we may be required to construct a new facility in the future. The San Diego Correctional Facility is subject to a ground lease with the County of San Diego. Under the provisions of the lease, the facility is divided into three different properties (Initial, Existing and Expansion Premises), all of which previously had separate terms ranging from June 2006 to December 2015. During January 2010, we entered into an amendment to the ground lease with the County of San Diego whereby the terms of the different properties are now scheduled to expire at the same date on December 31, 2015.

Ownership of the Initial portion of the facility containing approximately 950 beds reverts to the County upon expiration of the lease on December 31, 2015. Under the terms of the original ground lease, the County had the right to purchase the Initial portion of the facility, but no sooner than December 31, 2011, at a price generally equal to the cost of the premises, less an allowance for the amortization over a 20-year period. The lease for the Expansion portion of the facility containing approximately 200 beds was scheduled to expire December 31, 2011. Pursuant to the amendment to the ground lease signed in January 2010, the County s right to purchase the Initial portion of the facility was removed and the lease term for the 200-bed Expansion portion of the facility was extended through December 31, 2015. The third portion of the lease (Existing Premises) included 200 beds that expired in June 2006 and was not renewed.

Upon expiration of the lease for the Initial and Expansion Premises, we will likely be required to relocate a portion of the existing federal inmate population to other available beds within or outside the San Diego Correctional Facility, which could include the construction of a new facility at a site we are currently developing. However, we can provide no assurance that we will be able to retain these inmate populations.

During the year ended December 31, 2009, we capitalized $48.9 million of facility maintenance and technology related expenditures, compared with $35.3 million during the year ended December 31, 2008. We currently expect to incur approximately $52.5 million to $57.5 million in facility maintenance and information technology capital expenditures during 2010, and approximately $91.0 million to $111.0 million on prison development and expansions. We also currently expect to pay approximately $68.0 million to $74.0 million in federal and state income taxes during 2010, compared with $63.5 million during 2009 and $54.9 million in 2008. Income taxes paid in 2008 reflect the favorable tax depreciation provisions on qualified assets under the Economic Stimulus Act of 2008, as well as on our Adams County Correctional Center, which is in a location that qualifies for accelerated depreciation under the Gulf Opportunity Zone Act of 2005. Income taxes paid in 2009 reflect the favorable tax depreciation provisions on qualified assets under the American Recovery and Reinvestment Act of 2009 signed into law in February 2009.

In November 2008, our Board of Directors approved a program to repurchase up to $150.0 million of our common stock. Through the expiration of this stock repurchase plan on December 31, 2009, we completed the purchase of 10.7 million shares at a total cost of $125.0 million, or an average price of $11.72 per share. We utilized cash on hand, net cash provided by operations and borrowings available under our revolving credit facility to fund the repurchases. Our last purchase under the $150.0 million stock repurchase plan was in March 2009. In February 2010, our Board of Directors approved a new program to repurchase up to $250.0 million of our common stock through June 30, 2011. The program is intended to be implemented essentially the same as the previous repurchase program, through purchases made from time to time in the open market or in privately negotiated transactions, in accordance with Securities and Exchange Commission requirements. Given current market conditions and available bed capacity within our portfolio, we believe that it is appropriate to use our capital resources to repurchase common stock at prices which would equal or exceed the rates of return we require when we invest in new beds.

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On May 19, 2009, we announced a cash tender offer for any and all of our outstanding $450.0 million 7.5% senior notes. In conjunction with the tender offer, we solicited consents from holders of the 7.5% senior notes to effect certain proposed amendments to the indenture governing the 7.5% senior notes. Holders who validly tendered their 7.5% senior notes and provided their consents to the proposed amendments to the indenture governing the 7.5% senior notes prior to the consent payment deadline on June 2, 2009 (the Consent Date) were entitled to receive total consideration equal to $1,001.25 per $1,000 principal amount of the 7.5% senior notes, which included a consent payment of $1.25 per $1,000 principal amount of the 7.5% senior notes, plus any accrued and unpaid interest on the 7.5% senior notes up to, but not including, the payment date. Holders who validly tendered their 7.5% senior notes and provided their consents to the proposed amendments to the indenture governing the 7.5% senior notes after the Consent Date but on or prior to June 16, 2009 (the Expiration Date) were entitled to $1,000 per $1,000 principal amount of the 7.5% senior notes plus accrued and unpaid interest up to, but not including, the payment date. However, holders of the 7.5% senior notes who tendered after the Consent Date did not receive the consent payment.

On June 3, 2009, we completed the sale and issuance of $465.0 million aggregate principal amount of 7.75% unsecured senior notes pursuant to a prospectus supplement under an automatically effective shelf registration statement that we filed with the SEC on May 19, 2009. The 7.75% senior notes were issued at a price of 97.116%, resulting in a yield to maturity of 8.25%. We used the net proceeds from the sale of the 7.75% senior notes to purchase (through the previously described cash tender offer), redeem, or otherwise acquire our 7.5% senior notes, to pay fees and expenses, and for general corporate purposes. As of June 30, 2009, holders of $372.1 million of the 7.5% senior notes validly tendered their notes pursuant to the tender offer and consent solicitation. On July 3, 2009, we redeemed the remaining $77.9 million aggregate principal amount of the 7.5% senior notes outstanding as of June 30, 2009. We reported a charge of $3.8 million during the second quarter of 2009 in connection with the purchase and redemption of the 7.5% senior notes. We capitalized approximately $10.5 million of costs associated with the issuance of the 7.75% senior notes.

Replacing the 7.5% senior notes, which were scheduled to mature on May 1, 2011, with the 7.75% senior notes, which are scheduled to mature on June 1, 2017, extended our nearest debt maturity to December 2012. Although the current downturn in the economy has increased the level of uncertainty in the demand for prison beds in the short-term, we believe the long-term implications are very positive as states defer or cancel plans for adding new prison bed capacity. Further, certain of our customers have expressed an interest in pursuing additional bed capacity from third parties despite their budgetary challenges. We believe our debt refinancing provides us with more financial flexibility to take advantage of opportunities that may require additional capital. These opportunities also include stock repurchases.

We have the ability to fund our capital expenditure requirements, including the aforementioned construction projects, as well as our facility maintenance and information technology expenditures, working capital, debt service requirements, and the stock repurchase program, with cash on hand, net cash provided by operations, and borrowings available under our revolving credit facility.

As of December 31, 2009, our liquidity was provided by cash on hand of $45.9 million, and $236.2 million available under our $450.0 million revolving credit facility. During the year ended December 31, 2009 and 2008, we generated $314.7 million and $273.6 million, respectively, in cash through operating activities, and as of December 31, 2009, we had net working capital of $130.7 million. We currently expect to be able to meet our cash expenditure requirements for the next year utilizing these resources. None of our outstanding debt requires scheduled principal repayments, and with the June 2009 issuance of $465.0 million 7.75% unsecured senior notes and subsequent tender and redemption of all of the $450.0 million 7.5% senior notes, we currently have no debt maturities until December

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2012. We also have an option to increase the availability under our revolving credit facility by up to $300.0 million subject to, among other things, the receipt of commitments for the increased amount. In addition, we may issue debt or equity securities from time to time when we determine that market conditions and the opportunity to utilize the proceeds from the issuance of such securities are favorable.

Lehman Brothers Commercial Bank (Lehman), which had a $15.0 million credit commitment under our revolving credit facility, is a defaulting lender under the terms of the credit agreement. At December 31, 2009, Lehman had funded $2.3 million in borrowings and $1.1 million in letters of credit that remained outstanding on the facility. The loan balance will be repaid on a pro-rata basis to the extent that LIBOR-based loans are repaid on tranches Lehman previously funded. It is our expectation that going forward we will not have access to additional incremental funding from Lehman, and to the extent Lehman s funding is reduced, it will not be replaced. We do not believe that this reduction of credit has had a material effect on our liquidity and capital resources. None of the other banks providing commitments under our revolving credit facility have failed to fund borrowings we have requested. However, no assurance can be provided that all of the banks in the lending group will continue to operate as a going concern in the future. If any of the banks in the lending group were to fail, it is possible that the capacity under our revolving credit facility would be reduced further.

Our cash flow is subject to the receipt of sufficient funding of and timely payment by contracting governmental entities. If the appropriate governmental agency does not receive sufficient appropriations to cover its contractual obligations, it may terminate our contract or delay or reduce payment to us. Any delays in payment, or the termination of a contract, could have an adverse effect on our cash flow and financial condition. In July 2009, we began receiving warrants, also known as IOU s, from the state of California for payment of services with a maturity date of October 2, 2009 and a fixed interest rate of 3.75%. During September 2009, the state of California redeemed the warrants we had previously received inclusive of accrued interest. As of December 31, 2009, we had no outstanding warrants. However, if California were to resume issuing warrants or if several additional major customers substantially delayed their cash payments to us, our liquidity could be materially affected.

As of December 31, 2009, the interest rates on all our outstanding indebtedness are fixed, with the exception of the interest rate applicable to $171.8 million outstanding under our revolving credit facility, with a total weighted average effective interest rate of 6.6%, while our total weighted average maturity was 4.9 years. Standard & Poor s Ratings Services currently rates our unsecured debt and corporate credit as BB , while Moody s Investors Service currently rates our unsecured debt as Ba2 . On September 17, 2009, Moody s improved its outlook on our debt rating to positive from stable.

Operating Activities

Our net cash provided by operating activities for the year ended December 31, 2009 was $314.7 million compared with $273.6 million in 2008 and $250.9 million in 2007. Cash provided by operating activities represents the year to date net income plus depreciation and amortization, changes in various components of working capital, and adjustments for expenses associated with debt refinancing and recapitalization transactions and various non-cash charges, including primarily deferred income taxes. The increase in cash provided by operating activities during each year was primarily the result of an increase in higher operating income and favorable fluctuations in working capital balances during 2009, partially offset by an increase in income tax payments as a result of the aforementioned favorable depreciation provisions in 2008.

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Investing Activities

Our cash flow used in investing activities was $143.9 million for the year ended December 31, 2009, and was primarily attributable to capital expenditures during the year of $143.0 million, including $94.3 million for the expansion and development activities previously discussed herein, and $48.6 million for facility maintenance and information technology capital expenditures. Our cash flow used in investing activities was $514.4 million for the year ended December 31, 2008, and was primarily attributable to capital expenditures during the year of $515.6 million, including $480.5 million for expansion and development activities and $35.1 million for facility maintenance and information technology capital expenditures. During the year ended December 31, 2007, our cash flow used in investing activities was $253.7 million, primarily resulting from capital expenditures of $343.1 million, including $296.4 million for expansion and development activities and $46.7 million for facility maintenance and information technology capital expenditures. Cash flow used in investing activities during 2007 was partially offset by the proceeds from the sale of investments of $86.7 million.

Financing Activities

Our cash flow used in financing activities was $159.0 million for the year ended December 31, 2009 and was primarily attributable to paying $125.7 million to purchase common stock, including $110.4 million in connection with the aforementioned stock repurchase program and $15.3 million for the purchase and retirement of common stock that was issued in connection with equity-based compensation. These cash outflows were partially offset by cash flows associated with the exercising of stock options, including the related income tax benefit of equity compensation. Our cash flow used in financing activities also included $45.4 million in net repayments on our revolving credit facility.

Our cash flow provided by financing activities was $216.9 million for the year ended December 31, 2008 and was primarily attributable to $217.2 million of net borrowings from our revolving credit facility, as well as the cash flows associated with the exercising of stock options, including the related income tax benefit of equity compensation, net of the purchase and retirement of common stock.

Our cash flow provided by financing activities was $31.7 million for the year ended December 31, 2007 and was primarily attributable to the cash flows associated with the exercise of stock options, including related income tax benefit of equity compensation, net of the purchase and retirement of common stock.

Contractual Obligations

The following schedule summarizes our contractual obligations by the indicated period as of December 31, 2009 (in thousands):

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	Payments Due By Year Ended December 31,						
	2010	2011	2012	2013	2014	Thereafter	Total
Long-term debt	$	$	$ 171,799	$ 375,000	$ 150,000	$ 465,000	$ 1,161,799
Interest on senior notes	69,600	69,600	69,600	57,881	41,100	90,094	397,875
Contractual facility expansions	75,309						75,309
Operating leases	5,576	4,960	3,945	3,965	3,986	31,934	54,366
Total Contractual Cash Obligations	$ 150,485	$ 74,560	$ 245,344	$ 436,846	$ 195,086	$ 587,028	$ 1,689,349

The cash obligations in the table above do not include future cash obligations for variable interest associated with our outstanding revolving credit facility as projections would be based on future outstanding balances as well as future variable interest rates, as we are unable to make reliable estimates of either. Further, the cash obligations in the table above also do not include future cash obligations for uncertain tax positions as we are unable to make reliable estimates of the timing of such payments, if any, to the taxing authorities. We had $30.4 million of letters of credit outstanding at December 31, 2009 primarily to support our requirement to repay fees and claims under our workers compensation plan in the event we do not repay the fees and claims due in accordance with the terms of the plan. The letters of credit are renewable annually. We did not have any draws under any outstanding letters of credit during 2009, 2008, or 2007. The contractual facility expansions included in the table above represent expansion or development projects for which we have already entered into a contract with a customer that obligates us to complete the expansion or development project. Certain of our other ongoing construction and expansion projects are not currently under contract and thus are not included as a contractual obligation above as we may generally suspend or terminate such projects without substantial penalty.

INFLATION

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

SEASONALITY AND QUARTERLY RESULTS

Our business is somewhat subject to seasonal fluctuations. Because we are generally compensated for operating and managing facilities at an inmate per diem rate, our financial results are impacted by the number of calendar days in a fiscal quarter. Our fiscal year follows the calendar year and therefore, our daily profits for the third and fourth quarters include two more days than the first quarter (except in leap years) and one more day than the second quarter. Further, salaries and benefits represent the most significant component of operating expenses. Significant portions of the Company s unemployment taxes are recognized during the first quarter, when base wage rates reset for state unemployment tax purposes. Finally, quarterly results are affected by government funding initiatives, the timing of the opening of new facilities, or the commencement of new management contracts and related start-up expenses which may mitigate or exacerbate the impact of other seasonal influences. Because of these seasonality factors, results for any quarter are not necessarily indicative of the results that may be achieved for the full fiscal year.

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ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Our primary market risk exposure is to changes in U.S. interest rates. We are exposed to market risk related to our revolving credit facility because the interest rate on our revolving credit facility is subject to fluctuations in the market. If the interest rate for our outstanding indebtedness under the revolving credit facility was 100 basis points higher or lower during the years ended December 31, 2009 and 2008, our interest expense, net of amounts capitalized, would have been increased or decreased by $2.4 million and $1.2 million, respectively. We had no amounts outstanding under the revolving credit facility during the year ended December 31, 2007.

As of December 31, 2009, we had outstanding $375.0 million of senior notes with a fixed interest rate of 6.25%, $150.0 million of senior notes with a fixed interest rate of 6.75%, and $465.0 million of senior notes with a fixed interest rate of 7.75%. Because the interest rates with respect to these instruments are fixed, a hypothetical 100 basis point increase or decrease in market interest rates would not have a material impact on our financial statements.

We may, from time to time, invest our cash in a variety of short-term financial instruments. These instruments generally consist of highly liquid investments with original maturities at the date of purchase of three months or less. While these investments are subject to interest rate risk and will decline in value if market interest rates increase, a hypothetical 100 basis point increase or decrease in market interest rates would not materially affect the value of these instruments.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

The financial statements and supplementary data required by Regulation S-X are included in this annual report on Form 10-K commencing on Page F-1.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

None.

ITEM 9A. CONTROLS AND PROCEDURES.

Management s Evaluation of Disclosure Controls and Procedures

An evaluation was performed under the supervision and with the participation of our senior management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act as of the end of the period covered by this annual report. Based on that evaluation, our officers, including our Chief Executive Officer and Chief Financial Officer, concluded that as of the end of the period covered by this annual report our disclosure controls and procedures are effective to ensure that information required to be disclosed in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Commission s rules and forms and information required to be disclosed in the reports we file or submit under the Exchange Act is accumulated and communicated to our management, including our chief executive officer and chief financial officer, to allow timely decisions regarding required disclosure.

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Management s Report On Internal Control Over Financial Reporting

Management of Corrections Corporation of America (the Company) is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. The Company s internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. The Company s internal control over financial reporting includes those policies and procedures that:

(i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company;

(ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and

(iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of the Company s internal control over financial reporting as of December 31, 2009. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework.

Based on management s assessment and those criteria, management believes that, as of December 31, 2009, the Company s internal control over financial reporting was effective.

The Company s independent registered public accounting firm, Ernst & Young LLP, have issued an attestation report on the Company s internal control over financial reporting. That report begins on page 64.

Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting that occurred during the period covered by this report that have materially affected, or are likely to materially affect, our internal control over financial reporting.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders of Corrections Corporation of America

We have audited Corrections Corporation of America and Subsidiaries internal control over financial reporting as of December 31, 2009, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Corrections Corporation of America and Subsidiaries management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management s Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Corrections Corporation of America and Subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2009, based on the COSO criteria.

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We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Corrections Corporation of America and Subsidiaries as of December 31, 2009 and 2008, and the related consolidated statements of operations, stockholders equity and cash flows for each of the three years in the period ended December 31, 2009 and our report dated February 24, 2010 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP
Ernst & Young LLP

Nashville, Tennessee
February 24, 2010

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ITEM 9B. OTHER INFORMATION.

None.

PART III.

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE.

The information required by this Item 10 will appear in, and is hereby incorporated by reference from, the information under the headings Proposal 1 Election of Directors-Directors Standing for Election, Executive Officers-Information Concerning Executive Officers Who Are Not Directors, Corporate Governance Board of Directors Meetings and Committees, Corporate Governance Independence and Financial Literacy of Audit Committee Members, and Security Ownership of Certain Beneficial Owners and Management Section 16(a) Beneficial Ownership Reporting Compliance in our definitive proxy statement for the 2010 annual meeting of stockholders.

Our Board of Directors has adopted a Code of Ethics and Business Conduct applicable to the members of our Board of Directors and our officers, including our Chief Executive Officer and Chief Financial Officer. In addition, the Board of Directors has adopted Corporate Governance Guidelines and charters for our Audit Committee, Compensation Committee, Nominating and Governance Committee and Executive Committee. You can access our Code of Ethics and Business Conduct, Corporate Governance Guidelines and current committee charters on our website at www.correctionscorp.com.

ITEM 11. EXECUTIVE COMPENSATION.

The information required by this Item 11 will appear in, and is hereby incorporated by reference from, the information under the headings Executive and Director Compensation and Compensation Committee Interlocks and Insider Participation in our definitive proxy statement for the 2010 annual meeting of stockholders.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.

The information required by this Item 12 will appear in, and is hereby incorporated by reference from, the information under the heading Security Ownership of Certain Beneficial Owners and Management Ownership of Common Stock in our definitive proxy statement for the 2010 annual meeting of stockholders.

Securities Authorized for Issuance Under Equity Compensation Plans

The following table sets forth certain information as of December 31, 2009 regarding compensation plans under which our equity securities are authorized for issuance.

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Plan Category	(a) Number of Securities to be Issued Upon Exercise of Outstanding Options	(b) Weighted Average Exercise Price of Outstanding Options	(c) Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plan (Excluding Securities Reflected in Column (a))
Equity compensation plans approved by stockholders	3,908,765	$ 15.00	3,134,532 (1)
Equity compensation plans not approved by stockholders			
Total	3,908,765	$ 15.00	3,134,532

(1) Reflects shares of common stock available for issuance under our Amended and Restated 2000 Stock Incentive Plan, as amended, our 2008 Stock Incentive Plan, and the Non-Employee Directors Compensation Plan, the only equity compensation plans approved by our stockholders under which we continue to grant awards.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE.

The information required by this Item 13 will appear in, and is hereby incorporated by reference from, the information under the heading Corporate Governance Certain Relationships and Related Transactions and Corporate Governance Director Independence in our definitive proxy statement for the 2010 annual meeting of stockholders.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES.

The information required by this Item 14 will appear in, and is hereby incorporated by reference from, the information under the heading Proposal 2 Ratification of Appointment of Independent Registered Public Accounting Firm in our definitive proxy statement for the 2010 annual meeting of stockholders.

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PART IV.

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.

The following documents are filed as part of this report:

(1) Financial Statements.

The financial statements as set forth under Item 8 of this annual report on Form 10-K have been filed herewith, beginning on page F-1 of this report.

(2) Financial Statement Schedules.

Schedules for which provision is made in Regulation S-X are either not required to be included herein under the related instructions or are inapplicable or the related information is included in the footnotes to the applicable financial statements and, therefore, have been omitted.

(3) The Exhibits required by Item 601 of Regulation S-K are listed in the Index of Exhibits included herewith.

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Consolidated Financial Statements of Corrections Corporation of America and Subsidiaries

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders of
Corrections Corporation of America and Subsidiaries

We have audited the accompanying consolidated balance sheets of Corrections Corporation of America and Subsidiaries as of December 31, 2009 and 2008 and the related consolidated statements of operations, stockholders equity and cash flows for each of the three years in the period ended December 31, 2009. 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 the standards of the Public Company Accounting Oversight Board (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 consolidated financial position of Corrections Corporation of America and Subsidiaries at December 31, 2009 and 2008, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2009, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Corrections Corporation of America s internal control over financial reporting as of December 31, 2009, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 24, 2010 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP
Ernst & Young LLP

Nashville, Tennessee
February 24, 2010

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CORRECTIONS CORPORATION OF AMERICA AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(in thousands, except per share data)

	December 31,	
	2009	2008
ASSETS		
Cash and cash equivalents	**$ 45,908**	$ 34,077
Accounts receivable, net of allowance of $1,563 and $2,689, respectively	**241,185**	261,101
Deferred tax assets	**11,842**	16,108
Prepaid expenses and other current assets	**26,254**	23,472
Current assets of discontinued operations	**66**	3,541
Total current assets	**325,255**	338,299
Property and equipment, net	**2,520,503**	2,478,670
Restricted cash	**6,747**	6,710
Investment in direct financing lease	**12,185**	13,414
Goodwill	**13,672**	13,672
Other assets	**27,381**	20,455
Non-current assets of discontinued operations		154
Total assets	**$ 2,905,743**	$ 2,871,374
LIABILITIES AND STOCKHOLDERS EQUITY		
Accounts payable and accrued expenses	**$ 193,429**	$ 189,049
Income taxes payable	**481**	450
Current portion of long-term debt		290
Current liabilities of discontinued operations	**673**	2,034
Total current liabilities	**194,583**	191,823
Long-term debt, net of current portion	**1,149,099**	1,192,632
Deferred tax liabilities	**88,260**	68,349
Other liabilities	**31,255**	38,211
Total liabilities	**1,463,197**	1,491,015
Commitments and contingencies		
Common stock $0.01 par value; 300,000 shares authorized; 115,962 and 124,673 shares issued and outstanding at December 31, 2009 and 2008, respectively	**1,160**	1,247
Additional paid-in capital	**1,483,497**	1,576,177
Retained deficit	**(42,111)**	(197,065)

Total stockholders equity	**1,442,546**	1,380,359
Total liabilities and stockholders equity	**$ 2,905,743**	$ 2,871,374

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

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CORRECTIONS CORPORATION OF AMERICA AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share amounts)

	For the Years Ended December 31,		
	2009	2008	2007
REVENUE:			
Management and other	**$ 1,667,798**	$ 1,581,593	$ 1,439,826
Rental	**2,165**	2,576	2,399
	1,669,963	1,584,169	1,442,225
EXPENSES:			
Operating	**1,168,672**	1,112,679	1,025,040
General and administrative	**86,537**	80,308	74,399
Depreciation and amortization	**100,799**	90,555	78,396
Goodwill impairment			554
	1,356,008	1,283,542	1,178,389
OPERATING INCOME	**313,955**	300,627	263,836
OTHER (INCOME) EXPENSE:			
Interest expense, net	**72,780**	59,404	53,776
Expenses associated with debt refinancing transactions	**3,838**		
Other (income) expense	**(151)**	292	(308)
	76,467	59,696	53,468
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	**237,488**	240,931	210,368
Income tax expense	**(81,745)**	(90,933)	(79,367)
INCOME FROM CONTINUING OPERATIONS	**155,743**	149,998	131,001
Income (loss) from discontinued operations, net of taxes	**(789)**	943	2,372
NET INCOME	**$ 154,954**	$ 150,941	$ 133,373
BASIC EARNINGS PER SHARE:			
Income from continuing operations	**$ 1.34**	$ 1.20	$ 1.07

Income (loss) from discontinued operations, net of taxes		**(0.01)**		0.01		0.02
Net income	**$**	**1.33**	$	1.21	$	1.09
DILUTED EARNINGS PER SHARE:						
Income from continuing operations	**$**	**1.33**	$	1.19	$	1.04
Income (loss) from discontinued operations, net of taxes		**(0.01)**		0.01		0.02
Net income	**$**	**1.32**	$	1.20	$	1.06

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

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CORRECTIONS CORPORATION OF AMERICA AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	For the Years Ended December 31,		
	2009	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	**$ 154,954**	$ 150,941	$ 133,373
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	**100,803**	91,461	78,682
Goodwill impairment			1,574
Amortization of debt issuance costs and other non-cash interest	**4,017**	3,812	3,931
Expenses associated with debt refinancing transactions	**3,838**		
Deferred income taxes	**22,622**	29,813	9,576
Other (income) expense	**(158)**	253	(303)
Other non-cash items	**661**	983	307
Income tax benefit of equity compensation	**(6,896)**	(9,044)	(21,225)
Non-cash equity compensation	**9,828**	9,679	7,500
Changes in assets and liabilities, net:			
Accounts receivable, prepaid expenses and other assets	**20,767**	(25,150)	(6,950)
Accounts payable, accrued expenses and other liabilities	**(2,672)**	12,307	25,649
Income taxes payable	**6,927**	8,530	18,766
Net cash provided by operating activities	**314,691**	273,585	250,880
CASH FLOWS FROM INVESTING ACTIVITIES:			
Expenditures for facility development and expansions	**(94,313)**	(480,511)	(296,453)
Expenditures for other capital improvements	**(48,644)**	(35,135)	(46,688)
Proceeds from sale of investments			86,716
Purchases of investments			(3,886)
Decrease in restricted cash			5,641
Proceeds from sale of assets	**273**	1,002	737
Increase in other assets	**(2,285)**	(684)	(610)
Payments received on direct financing lease and notes receivable	**1,089**	965	855
Net cash used in investing activities	**(143,880)**	(514,363)	(253,688)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from issuance of debt	**587,478**	293,800	
Principal repayments of debt	**(631,334)**	(76,555)	
Payment of debt issuance and other refinancing and related costs	**(11,485)**	(89)	(1,997)
Proceeds from exercise of stock options and warrants	**15,166**	10,308	16,006
Purchase and retirement of common stock	**(125,701)**	(19,621)	(3,579)
Income tax benefit of equity compensation	**6,896**	9,044	21,225
Net cash (used in) provided by financing activities	**(158,980)**	216,887	31,655

NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**11,831**	(23,891)	28,847
CASH AND CASH EQUIVALENTS, beginning of year	**34,077**	57,968	29,121
CASH AND CASH EQUIVALENTS, end of year	**$ 45,908**	$ 34,077	$ 57,968

(Continued)

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CORRECTIONS CORPORATION OF AMERICA AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(Continued)

	For the Years Ended December 31,		
	2009	2008	2007
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:			
Cash paid during the period for:			
Interest (net of amounts capitalized of $1,582, $13,526, and $7,613 in 2009, 2008, and 2007, respectively)	**$ 74,466**	$ 58,531	$ 60,595
Income taxes	**$ 63,534**	$ 54,914	$ 51,255

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

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CORRECTIONS CORPORATION OF AMERICA AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2009, 2008, AND 2007
(in thousands)

	Common Stock		Additional Paid-In	Retained Earnings	Total Stockholders
	Shares	Par Value	Capital	(Deficit)	Equity
BALANCE, December 31, 2006	122,084	$ 1,221	$ 1,527,608	$ (479,148)	$ 1,049,681
Comprehensive income:					
Net income				133,373	133,373
Total comprehensive income				133,373	133,373
Issuance of common stock	1		25		25
Retirement of common stock	(130)	(1)	(3,578)		(3,579)
Amortization of deferred compensation, net of forfeitures	(134)	(1)	5,101		5,100
Stock option compensation expense			2,375		2,375
Income tax benefit of equity compensation			21,225		21,225
Warrants exercised	75	1	832		833
Restricted stock grant	312	3	(3)		
Stock options exercised	2,264	22	15,151		15,173
Cumulative effect of accounting change				(2,231)	(2,231)
BALANCE, December 31, 2007	124,472	$ 1,245	$ 1,568,736	$ (348,006)	$ 1,221,975

(Continued)

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CORRECTIONS CORPORATION OF AMERICA AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2009, 2008, AND 2007
(in thousands)

	Common Stock		Additional Paid-In Capital	Retained Earnings (Deficit)	Total Stockholders Equity
	Shares	Par value			
BALANCE, December 31, 2007	124,472	$ 1,245	$ 1,568,736	$ (348,006)	$ 1,221,975
Comprehensive income:					
Net income				150,941	150,941
Total comprehensive income				150,941	150,941
Issuance of common stock	1		25		25
Retirement of common stock	(1,263)	(13)	(21,575)		(21,588)
Amortization of deferred compensation, net of forfeitures	(41)		5,865		5,865
Stock option compensation expense			3,789		3,789
Income tax benefit of equity compensation			9,044		9,044
Warrants exercised	150	2	1,665		1,667
Restricted stock grant	279	2	(2)		
Stock options exercised	1,075	11	8,630		8,641
BALANCE, December 31, 2008	124,673	$ 1,247	$ 1,576,177	$ (197,065)	$ 1,380,359

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CORRECTIONS CORPORATION OF AMERICA AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2009, 2008, AND 2007
(in thousands)
(Continued)

	Common Stock		Additional Paid-In Capital	Retained Earnings (Deficit)	Total Stockholders Equity
	Shares	Par value			
BALANCE, December 31, 2008	124,673	$ 1,247	$ 1,576,177	$ (197,065)	$ 1,380,359
Comprehensive income:					
Net income				154,954	154,954
Total comprehensive income				154,954	154,954
Issuance of common stock	3		50		50
Retirement of common stock	(10,314)	(103)	(123,631)		(123,734)
Amortization of deferred compensation, net of forfeitures	(30)		5,719		5,719
Stock option compensation expense			4,059		4,059
Income tax benefit of equity compensation			5,973		5,973
Restricted stock grant	135	1	(1)		
Stock options exercised	1,495	15	15,151		15,166
BALANCE, December 31, 2009	**115,962**	**$ 1,160**	**$ 1,483,497**	**$ (42,111)**	**$ 1,442,546**

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

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CORRECTIONS CORPORATION OF AMERICA AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2009, 2008 AND 2007

1. ORGANIZATION AND OPERATIONS

Corrections Corporation of America (together with its subsidiaries, the Company) is the nation s largest owner and operator of privatized correctional and detention facilities and one of the largest prison operators in the United States, behind only the federal government and three states. As of December 31, 2009, the Company owned 46 correctional and detention facilities, two of which the Company leased to other operators. At December 31, 2009, the Company operated 65 facilities, including 44 facilities that it owned, located in 19 states and the District of Columbia. The Company is also constructing an additional 1,072-bed correctional facility under a contract awarded by the Office of Federal Detention Trustee in Pahrump, Nevada that is currently expected to be completed during the third quarter of 2010.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The consolidated financial statements include the accounts of the Company on a consolidated basis with its wholly-owned subsidiaries. All intercompany balances and transactions have been eliminated.

Cash and Cash Equivalents

The Company considers all liquid debt instruments with a maturity of three months or less at the time of purchase to be cash equivalents.

Restricted Cash

Restricted cash at both December 31, 2009 and 2008 was $6.7 million for a capital improvements, replacements, and repairs reserve.

Accounts Receivable and Allowance for Doubtful Accounts

At December 31, 2009 and 2008, accounts receivable of $241.2 million and $261.1 million were net of allowances for doubtful accounts totaling $1.6 million and $2.7 million, respectively. Accounts receivable consist primarily of amounts due from federal, state, and local government agencies for

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operating and managing prisons and other correctional facilities and providing inmate residential and prisoner transportation services.

Accounts receivable are stated at estimated net realizable value. The Company recognizes allowances for doubtful accounts to ensure receivables are not overstated due to uncollectibility. Bad debt reserves are maintained for customers in the aggregate based on a variety of factors, including the length of time receivables are past due, significant one-time events and historical experience. If circumstances related to customers change, estimates of the recoverability of receivables would be further adjusted.

Property and Equipment

Property and equipment are carried at cost. Assets acquired by the Company in conjunction with acquisitions are recorded at estimated fair market value. Betterments, renewals and significant repairs that extend the life of an asset are capitalized; other repair and maintenance costs are expensed. Interest is capitalized to the asset to which it relates in connection with the construction or expansion of facilities. Preacquisition costs directly associated with the development of a correctional facility are capitalized as part of the cost of the development project. Preacquisition costs are written-off to general and administrative expense whenever a project is abandoned. The cost and accumulated depreciation applicable to assets retired are removed from the accounts and the gain or loss on disposition is recognized in income. Depreciation is computed over the estimated useful lives of depreciable assets using the straight-line method. Useful lives for property and equipment are as follows:

Land improvements	5 20 years
Buildings and improvements	5 50 years
Equipment and software	3 5 years
Office furniture and fixtures	5 years

Intangible Assets Other Than Goodwill

Intangible assets other than goodwill include contract acquisition costs and contract values established in connection with certain business combinations. Contract acquisition costs (included in other non-current assets in the accompanying consolidated balance sheets) and contract values (included in other non-current liabilities in the accompanying consolidated balance sheets) represent the estimated fair values of the identifiable intangibles acquired in connection with mergers and acquisitions completed during 2000. Contract acquisition costs and contract values are generally amortized into amortization expense using the interest method over the lives of the related management contracts acquired, which range from three months to approximately 19 years.

Accounting for the Impairment of Long-Lived Assets Other Than Goodwill

Long-lived assets other than goodwill are reviewed for impairment when circumstances indicate the carrying value of an asset may not be recoverable. For assets that are to be held and used, impairment is recognized when the estimated undiscounted cash flows associated with the asset or group of assets is less than their carrying value. If impairment exists, an adjustment is made to write the asset down to its fair value, and a loss is recorded as the difference between the carrying value and fair value. Fair values are determined based on quoted market values, discounted cash flows or internal and external appraisals, as applicable.

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Goodwill

Goodwill represents the cost in excess of the net assets of businesses acquired in the Company s managed-only segment. As further discussed in Note 3, goodwill is tested for impairment at least annually using a fair-value based approach.

Investment in Direct Financing Lease

Investment in direct financing lease represents the portion of the Company s management contract with a governmental agency that represents capitalized lease payments on buildings and equipment. The lease is accounted for using the financing method and, accordingly, the minimum lease payments to be received over the term of the lease less unearned income are capitalized as the Company s investment in the lease. Unearned income is recognized as income over the term of the lease using the interest method.

Investment in Affiliates

Investments in affiliates that are equal to or less than 50%-owned over which the Company can exercise significant influence are accounted for using the equity method of accounting.

Debt Issuance Costs

Generally, debt issuance costs, which are included in other assets in the consolidated balance sheets, are capitalized and amortized into interest expense using the interest method, or on a straight-line basis over the term of the related debt, if not materially different than the interest method. However, certain debt issuance costs incurred in connection with debt refinancings are charged to expense in accordance with Accounting Standards Codification (ASC) 470-50, Modifications and Extinguishments.

Management and Other Revenue

The Company maintains contracts with certain governmental entities to manage their facilities for fixed per diem rates. The Company also maintains contracts with various federal, state, and local governmental entities for the housing of inmates in company-owned facilities at fixed per diem rates or monthly fixed rates. These contracts usually contain expiration dates with renewal options ranging from annual to multi-year renewals. Most of these contracts have current terms that require renewal every two to five years. Additionally, most facility management contracts contain clauses that allow the government agency to terminate a contract without cause, and are generally subject to legislative appropriations. The Company generally expects to renew these contracts for periods consistent with the remaining renewal options allowed by the contracts or other reasonable extensions; however, no assurance can be given that such renewals will be obtained. Fixed monthly rate revenue is recorded in the month earned and fixed per diem revenue, including revenue under those contracts that include guaranteed minimum populations, is recorded based on the per diem rate multiplied by the number of inmates housed or guaranteed during the respective period. The Company recognizes any additional management service revenues upon completion of services provided to the customer. Certain of the government agencies also have the authority to audit and investigate the Company s contracts with them. For contracts that actually or effectively provide for certain reimbursement of expenses, if the agency determines that the Company has improperly allocated costs to a specific contract, the Company may not be reimbursed for those costs and could be required to refund the amount of any such costs that have been reimbursed. The reimbursement

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of expenses is recognized as a reduction to expense in the period the expenses are incurred by the Company. There were no material adverse audit findings during any of the periods presented.

Other revenue consists primarily of ancillary revenues associated with operating correctional and detention facilities, such as commissary, phone, and vending sales, and are recorded in the period the goods and services are provided to the inmates. Revenues generated from prisoner transportation services for governmental agencies are recorded in the period the inmates have been transported to their destination. Design and construction management fees earned from governmental agencies for certain expansion and development projects at managed-only facilities operated by the Company are recorded based on a percentage of completion of the construction project.

Rental Revenue

Rental revenue is recognized based on the terms of the Company s leases.

Self-Funded Insurance Reserves

The Company is significantly self-insured for employee health, workers compensation, automobile liability insurance claims, and general liability claims. As such, the Company s insurance expense is largely dependent on claims experience and the Company s ability to control its claims experience. The Company has consistently accrued the estimated liability for employee health insurance based on its history of claims experience and time lag between the incident date and the date the cost is paid by the Company. The Company has accrued the estimated liability for workers compensation and automobile insurance based on an actuarially determined liability, discounted to the net present value of the outstanding liabilities, using a combination of actuarial methods used to project ultimate losses. The liability for employee health, workers compensation, and automobile insurance includes estimates for both claims incurred and for claims incurred but not reported. The Company records litigation reserves related to general liability matters for which it is probable that a loss has been incurred and the range of such loss can be estimated. These estimates could change in the future.

Income Taxes

Income taxes are accounted for under the provisions of ASC 740 Income Taxes . ASC 740 generally requires the Company to record deferred income taxes for the tax effect of differences between book and tax bases of its assets and liabilities.

Deferred income taxes reflect the available net operating losses and tax credit carryforwards and the net tax effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Realization of the future tax benefits related to deferred tax assets is dependent on many factors, including the Company s past earnings history, expected future earnings, the character and jurisdiction of such earnings, unsettled circumstances that, if unfavorably resolved, would adversely affect utilization of its deferred tax assets, carryback and carryforward periods, and tax strategies that could potentially enhance the likelihood of realization of a deferred tax asset.

Income tax contingencies are accounted for under the provisions of ASC 740, Income Taxes . ASC 740 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return.

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Foreign Currency Transactions

The Company has extended a working capital loan to Agecroft Prison Management, Ltd. (APM), the operator of a correctional facility in Salford, England previously owned by a subsidiary of the Company. The working capital loan is denominated in British pounds; consequently, the Company adjusts these receivables to the current exchange rate at each balance sheet date and recognizes the unrealized currency gain or loss in current period earnings. See Note 6 for further discussion of the Company s relationship with APM.

Fair Value of Financial Instruments

To meet the reporting requirements of ASC 825, Financial Instruments , the Company calculates the estimated fair value of financial instruments using quoted market prices of similar instruments or discounted cash flow techniques. At December 31, 2009 and 2008, there were no material differences between the carrying amounts and the estimated fair values of the Company s financial instruments, other than as follows (in thousands):

	December 31,			
	2009		2008	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Investment in direct financing lease	**$ 13,414**	**$ 16,329**	$ 14,503	$ 17,999
Note receivable from APM	**$ 5,025**	**$ 8,497**	$ 4,567	$ 7,734
Debt	**$(1,149,099)**	**$(1,187,768)**	$(1,192,922)	$(1,163,744)

Use of Estimates in Preparation of Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities, at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates and those differences could be material.

Concentration of Credit Risks

The Company s credit risks relate primarily to cash and cash equivalents, restricted cash, accounts receivable, and an investment in a direct financing lease. Cash and cash equivalents and restricted cash are primarily held in bank accounts and overnight investments. The Company maintains deposits of cash in excess of federally insured limits with certain financial institutions. The Company s accounts receivable and investment in direct financing lease represent amounts due primarily from governmental agencies. The Company s financial instruments are subject to the possibility of loss in carrying value as a result of either the failure of other parties to perform according to their contractual obligations or changes in market prices that make the instruments less valuable.

The Company derives its revenues primarily from amounts earned under federal, state, and local government management contracts. For the years ended December 31, 2009, 2008, and 2007, federal correctional and detention authorities represented 39%, 40%, and 41%, respectively, of the Company s total revenue. Federal correctional and detention authorities consist primarily of the Federal Bureau of Prisons (BOP), the United States Marshals Service (USMS), and the U.S. Immigration and Customs Enforcement (ICE). The BOP accounted for 13% of total revenue for each of the years 2009, 2008, and 2007. The USMS accounted for 14%, 14%, and 15% of total

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revenue for 2009, 2008, and 2007, respectively. The ICE accounted for 12%, 13%, and 13% of total revenue for 2009, 2008, and 2007, respectively. These federal customers have management contracts at facilities the Company owns and at facilities the Company manages but does not own. Additionally, the Company s management contracts with state correctional authorities represented 52%, 52%, and 49% of total revenue during the years ended December 31, 2009, 2008, and 2007, respectively. The State of California Department of Corrections and Rehabilitation (the CDCR) accounted for 11%, 6%, and 1% of total revenue for the years ended December 31, 2009, 2008, and 2007, respectively. No other customer generated more than 10% of total revenue during 2009, 2008, or 2007. Although the revenue generated from each of these agencies is derived from numerous management contracts, the loss of one or more of such contracts could have a material adverse impact on our financial condition and results of operations.

Comprehensive Income

ASC 220, Comprehensive Income establishes standards for reporting and displaying comprehensive income and its components in a full set of general purpose financial statements. Comprehensive income encompasses all changes in stockholders equity except those arising from transactions with stockholders.

The Company reports comprehensive income in the consolidated statements of stockholders equity.

Accounting for Stock-Based Compensation

Restricted Stock

The Company amortizes the fair market value as of the grant date of restricted stock awards over the vesting period using the straight-line method. The fair market value of performance-based restricted stock is amortized over the vesting period as long as the Company expects to meet the performance criteria. If achievement of the performance criteria becomes improbable, an adjustment is made to reverse the expense previously incurred.

Other Stock-Based Compensation

At December 31, 2009, the Company had equity incentive plans, which are described more fully in Note 14. The Company accounts for those plans under the recognition and measurement principles of ASC 718, Compensation-Stock Compensation . All options granted under those plans had an exercise price equal to the market value of the underlying common stock on the date of grant.

Effective December 30, 2005, the Company s board of directors approved the acceleration of the vesting of outstanding options previously awarded to executive officers and employees under its Amended and Restated 1997 Employee Share Incentive Plan and its Amended and Restated 2000 Stock Incentive Plan. As a result of the acceleration, approximately 3.0 million unvested options became exercisable, 45% of which were otherwise scheduled to vest in February 2006. All of the unvested options were in-the-money on the effective date of acceleration.

The purpose of the accelerated vesting of stock options was to enable the Company to avoid recognizing compensation expense associated with these options in future periods, estimated at the date of acceleration to be $3.8 million in 2006, $2.0 million in 2007, and $0.5 million in 2008. In order to prevent unintended benefits to the holders of these stock options, the Company imposed resale restrictions to prevent the sale of any shares acquired from the exercise of an accelerated option prior to the original vesting date of the option. The resale restrictions automatically expire

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upon the individual s termination of employment. All other terms and conditions applicable to such options, including the exercise prices, remained unchanged. As a result of the acceleration, the Company recognized a non-cash, pre-tax charge of $1.0 million in the fourth quarter of 2005 for the estimated value of the stock options that would have otherwise been forfeited.

3. GOODWILL AND INTANGIBLES

Goodwill was $13.7 million as of December 31, 2009 and 2008, and was associated with fourteen facilities the Company manages but does not own. This goodwill was established in connection with the acquisitions of two service companies during 2000. ASC 350, Intangibles-Goodwill and Other , establishes accounting and reporting requirements for goodwill and other intangible assets. Under ASC 350, goodwill attributable to each of the Company s reporting units is tested for impairment by comparing the fair value of each reporting unit with its carrying value. Fair value is determined using a collaboration of various common valuation techniques, including market multiples and discounted cash flows. These impairment tests are required to be performed at least annually. The Company performs its impairment tests during the fourth quarter, in connection with the Company s annual budgeting process, and whenever circumstances indicate the carrying value of goodwill may not be recoverable.

During the fourth quarter of 2007, in connection with the Company s annual budgeting process and annual goodwill impairment analysis, the Company recognized a goodwill impairment charge of $1.6 million related to the management of two of the Company s managed-only facilities. This impairment charge resulted from recent poor operating performance combined with an unfavorable forecast of future cash flows under the current management contracts at these facilities. The impairment charge was computed using a discounted cash flow method. During 2008, the Company exercised its option to terminate one of the management contracts upon expiration of the contract in the fourth quarter of 2008. Since the operations of this facility were reclassified and reported as discontinued operations, the goodwill impairment charge associated with this facility of $1.0 million is included in income from discontinued operations in 2007. See Note 13.

The components of the Company s other identifiable intangible assets and liabilities are as follows (in thousands):

	December 31, 2009		December 31, 2008	
	Gross Carrying Amount	**Accumulated Amortization**	Gross Carrying Amount	Accumulated Amortization
Contract acquisition costs	**$ 873**	**$ (862)**	$ 873	$ (860)
Contract values	**(35,688)**	**32,571**	(35,688)	29,896
Total	**$ (34,815)**	**$ 31,709**	$ (34,815)	$ 29,036

Contract acquisition costs are included in other non-current assets and contract values are included in other non-current liabilities in the accompanying consolidated balance sheets. Contract values are amortized using the interest method. Amortization income, net of amortization expense, for intangible assets and liabilities during the years ended December 31, 2009, 2008, and 2007 was $3.0 million, $4.7 million and $4.3 million, respectively. Interest expense associated with the amortization of contract values for the years ended December 31, 2009, 2008, and 2007 was $0.4 million, $0.7 million, and $1.1 million, respectively. Estimated amortization income, net of amortization expense, for the five succeeding fiscal years is as follows (in thousands):

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2010	$2,338
2011	134
2012	134
2013	134
2014	134

4. PROPERTY AND EQUIPMENT

At December 31, 2009, the Company owned 48 real estate properties, including 46 correctional and detention facilities, two of which the Company leased to other operators, and two corporate office buildings. At December 31, 2009, the Company also managed 21 correctional and detention facilities owned by government agencies.

Property and equipment, at cost, consists of the following (in thousands):

	December 31,	
	2009	2008
Land and improvements	**$ 75,374**	$ 71,346
Buildings and improvements	**2,732,185**	2,666,103
Equipment and software	**256,329**	226,645
Office furniture and fixtures	**28,846**	27,913
Construction in progress	**125,556**	85,206
	3,218,290	3,077,213
Less: Accumulated depreciation	**(697,787)**	(598,543)
	$ 2,520,503	$ 2,478,670

Construction in progress primarily consists of correctional facilities under construction or expansion. Interest is capitalized on construction in progress and amounted to $1.6 million, $13.5 million, and $7.6 million in 2009, 2008, and 2007, respectively.

Depreciation expense was $103.8 million, $95.2 million, and $82.7 million for the years ended December 31, 2009, 2008, and 2007, respectively.

Ten of the facilities owned by the Company are subject to options that allow various governmental agencies to purchase those facilities. Certain of these options to purchase are based on a depreciated book value while others are based on a fair market value calculation. In addition, two facilities, which are also subject to purchase options, are constructed on land that the Company leases from governmental agencies under ground leases. Under the terms of those ground leases, the facilities become the property of the governmental agencies upon expiration of the ground leases. The Company depreciates these properties over the shorter of the term of the applicable ground lease or the estimated useful life of the property.

The Company leases portions of the land and building of the San Diego Correctional Facility under an operating lease that expires December 2015 pursuant to amended lease terms executed between the Company and the County of San Diego in January 2010. The Company also leases land and building at the Elizabeth Detention Center under operating leases that expire June 2015. During January 2009, the Company commenced a new lease for land and building at the North Georgia Detention Center under an operating lease that expires in 2029. The rental expense incurred for these leases was $5.6 million, $3.5 million, and $3.4 million for the years ended December 31, 2009, 2008, and 2007, respectively. Future minimum lease payments as of December 31, 2009 under these operating leases are as follows:

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2010	$5,576
2011	4,960
2012	3,945
2013	3,965
2014	3,986

In December 2009, the Company entered into an Economic Development Agreement with the Wheeler County Development Authority (Wheeler County) in Wheeler County, Georgia to implement a tax abatement plan related to our bed expansion project at our Wheeler Correctional Facility. The tax abatement plan provides for 50% abatement of real property taxes for six years. Under the plan, legal title of the Company s real property was transferred to Wheeler County. In December 2009, Wheeler County issued bonds in a maximum principal amount of $30.0 million. The bonds were issued to the Company, so no cash exchanged hands. Wheeler County then leased the real property back to the Company. The lease payments are equal to the amount of the payments on the bonds. At any time, the Company has the option to purchase the real property by paying off the bonds, plus $100. Due to the form of the transaction, the Company has not recorded the bond or the capital lease associated with sale lease-back transaction. The original cost of the Company s property and equipment is being recorded on the balance sheet and will be depreciated once placed into service upon completion of construction.

In December 2009, the Company also entered into an Economic Development Agreement with the Douglas-Coffee County Industrial Authority (Coffee County) in Coffee County, Georgia to implement a tax abatement plan related to our bed expansion project at our Coffee Correctional Facility. The tax abatement plan provides for 100% abatement of real property taxes for five years. Under the plan, legal title of the Company s real property was transferred to Coffee County. In December 2009, Coffee County issued bonds in a maximum principal amount of $33.0 million. The bonds were issued to the Company, so no cash exchanged hands. Coffee County then leased the real property back to the Company. The lease payments are equal to the amount of the payments on the bonds. At any time, the Company has the option to purchase the real property by paying off the bonds, plus $100. Due to the form of the transaction, the Company has not recorded the bond or the capital lease associated with sale lease-back transaction. The original cost of the Company s property and equipment is being recorded on the balance sheet and will be depreciated once placed into service upon completion of construction.

5. FACILITY ACTIVATIONS, DEVELOPMENTS, AND CLOSURES

In July 2007, the Company announced the commencement of construction of a new correctional facility in Adams County, Mississippi. During the second quarter of 2008, the Company announced that it would increase the size of the Adams County Correctional Center. Construction of the Adams County Correctional Center was completed during the fourth quarter of 2008 at a cost of approximately $126.0 million. In April 2009, the Company announced that it had been awarded a contract with the BOP to house up to 2,567 federal inmates at the Adams County Correctional Center. The four-year contract, awarded as part of the Criminal Alien Requirement 8 Solicitation (CAR 8), also provides for up to three two-year renewal options and includes contract provisions that are materially comparable to the Company s other contracts with the BOP, including a 50% guarantee of occupancy during the activation period and a 90% guarantee thereafter. The Company began receiving inmates during the third quarter of 2009.

In February 2008, the Company announced its intention to construct a new correctional facility in Trousdale County, Tennessee. However, during the first quarter of 2009 the Company temporarily suspended the construction of this facility until it has greater clarity around the timing of future bed absorption by its customers. The Company will continue to monitor its customers needs, and could promptly resume construction of the facility.

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In May 2008, the Company was awarded a contract by the Office of Federal Detention Trustee to design, build, and operate a new correctional facility in Pahrump, Nevada, which is currently expected to be completed during the third quarter of 2010 for approximately $83.5 million. The new Nevada Southern Detention Center is expected to house approximately 1,000 federal prisoners. The contract provides for a guarantee of up to 750 inmates or detainees and includes an initial term of five years with three five-year renewal options.

In March 2009, the Company announced a new contract to manage detainee populations for ICE at the North Georgia Detention Center in Hall County, Georgia, which has a total design capacity of 502 beds. Under a five-year Inter-Governmental Service Agreement between Hall County, Georgia and ICE, the Company will house up to 500 ICE detainees at the facility. The Company leases the former Hall County Jail from Hall County, Georgia. The lease has an initial term of 20 years with two five-year renewal options and provides the Company the ability to cancel the lease if it does not have a management contract. The Company placed the beds into service during the third quarter of 2009 and began receiving detainees during October 2009.

In March 2009, the Company announced that it was awarded a contract with the state of Arizona to manage up to 752 Arizona inmates at its 752-bed Huerfano County Correctional Center in Colorado. The contract includes an initial term ending March 9, 2010, with four one-year renewal options by mutual agreement. Additionally, the contract includes a guaranteed 90% occupancy level effective upon initially reaching 90% occupancy. During the second quarter of 2009, the Company completed the relocation of approximately 600 Colorado inmates previously housed at the Huerfano facility to the Company s three other facilities located in Colorado and also completed the receipt of transferring Arizona inmates into the facility. During January 2010, the Arizona Department of Corrections notified the Company that it elected not to renew the contract at the Huerfano facility upon expiration of the contract. As a result, the Company currently expects to idle the facility at the end of the first quarter of 2010.

During December 2009, the Company announced its decision to cease operations at its 1,600-bed Prairie Correctional Facility in Minnesota on or about February 1, 2010 due to low inmate populations at the facility. During 2009, the Prairie facility housed offenders from the states of Minnesota and Washington. However, due to excess capacity in the states systems, both states have been reducing the populations held at Prairie. During January 2010, the final transfer of offenders from the Prairie facility to the state of Minnesota were completed. The state of Washington has removed all of its offenders from the Prairie facility, but maintains a modest inmate population in two other facilities in Arizona owned by the Company.

During January 2010, the Company announced that pursuant to the BOP Criminal Alien Requirement 10 Solicitation (CAR 10) its 2,304-bed California City Correctional Center in California was not selected for the continued management of the federal offenders currently located at this facility. The current contract with the BOP at the California City facility expires on September 30, 2010. The Company is working with the BOP to establish a transition plan for these inmates.

The Company is currently pursuing new management contracts to take advantage of the beds that have or will become available at the Huerfano, Prairie, and California City facilities but can provide no assurance that it will be successful in doing so.

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6. INVESTMENT IN AFFILIATE

The Company has determined that its joint venture in APM is a variable interest entity (VIE) in accordance with ASC 810, Consolidation of which the Company is not the primary beneficiary. The Company has a 50% ownership interest in APM, an entity holding the management contract for a correctional facility, HM Prison Forest Bank, under a 25-year prison management contract with an agency of the United Kingdom government. The Forest Bank facility, located in Salford, England, was previously constructed and owned by a wholly-owned subsidiary of the Company, which was sold in April 2001. All gains and losses under the joint venture are accounted for using the equity method of accounting. During 2000, the Company extended a working capital loan to APM, which totaled $5.0 million as of December 31, 2009. The outstanding working capital loan represents the Company s maximum exposure to loss in connection with APM.

For the years ended December 31, 2009, 2008, and 2007, equity in earnings of joint venture was $27,000, $0.2 million, $0.2 million, respectively, which is included in other (income) expense in the consolidated statements of operations. Because the Company s investment in APM has no carrying value, equity in the net deficit of APM is applied as a reduction to the net carrying value of the note receivable balance, which is included in other assets in the accompanying consolidated balance sheets.

7. INVESTMENT IN DIRECT FINANCING LEASE

At December 31, 2009, the Company s investment in a direct financing lease represents net receivables under a building and equipment lease between the Company and the District of Columbia for the D.C. Correctional Treatment Facility.

A schedule of minimum rentals to be received under the direct financing lease in future years is as follows (in thousands):

2010	$ 2,793
2011	2,793
2012	2,793
2013	2,793
2014	2,793
Thereafter	6,280
Total minimum obligation	20,245
Less unearned interest income	(6,831)
Less current portion of direct financing lease	(1,229)
Investment in direct financing lease	$ 12,185

During the years ended December 31, 2009, 2008, and 2007, the Company recorded interest income of $1.7 million, $1.8 million, and $1.9 million, respectively, under this direct financing lease.

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8. OTHER ASSETS

Other assets consist of the following (in thousands):

	December 31,	
	2009	2008
Debt issuance costs, less accumulated amortization of $8,024 and $14,255, respectively	**$ 16,173**	$ 11,681
Notes receivable, net	**4,263**	4,052
Cash surrender value of life insurance	**5,422**	3,753
Deposits	**1,512**	956
Contract acquisition costs, less accumulated amortization of $862 and $860, respectively	**11**	13
	$ 27,381	$ 20,455

9. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses consist of the following (in thousands):

	December 31,	
	2009	2008
Trade accounts payable	**$ 50,049**	$ 52,911
Accrued salaries and wages	**41,680**	37,063
Accrued workers compensation and auto liability	**8,660**	9,180
Accrued litigation	**11,405**	15,332
Accrued employee medical insurance	**10,265**	10,180
Accrued property taxes	**22,809**	17,760
Accrued interest	**14,226**	17,207
Other	**34,335**	29,416
	$ 193,429	$ 189,049

The total liability for workers compensation and auto liability was $23.8 million and $24.1 million as of December 31, 2009 and 2008, respectively, with the long-term portion included in other long-term liabilities in the accompanying consolidated balance sheets. These liabilities were discounted to the net present value of the outstanding liabilities using a 3.0% annual rate of return in 2009 and a 5.0% annual rate of return in 2008. These liabilities amounted to $26.5 million and $29.3 million on an undiscounted basis as of December 31, 2009 and 2008, respectively.

10. DIVIDENDS TO STOCKHOLDERS

Common Stock

No dividends for common stock were declared for the years ended December 31, 2009, 2008, and 2007. The indentures governing the Company s senior unsecured notes limit the amount of dividends the Company can declare or pay on outstanding shares of its common stock. Taking into consideration these limitations, the Company s management and its board of directors regularly evaluate the merits of declaring and paying a dividend. Future dividends, if any, will depend on the Company s future earnings, capital requirements, financial condition, alternative uses of capital, and on such other factors as the board of directors of the Company considers relevant.

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11. DEBT

Debt consists of the following (in thousands):

	December 31,	
	2009	2008
Revolving Credit Facility, principal due at maturity in December 2012; interest payable periodically at variable interest rates. The weighted average rate at December 31, 2009 was 1.0%.	**$ 171,799**	$ 217,245
7.5% Senior Notes, principal due at maturity in May 2011; interest payable semi-annually in May and November at 7.5%. These notes were tendered and redeemed as further described hereafter.		250,000
7.5% Senior Notes, principal due at maturity in May 2011; interest payable semi-annually in May and November at 7.5%. These notes were issued with a $2.3 million premium, of which $0.7 million was unamortized at December 31, 2008. These notes were tendered and redeemed as further described hereafter.		200,677
6.25% Senior Notes, principal due at maturity in March 2013; interest payable semi-annually in March and September at 6.25%.	**375,000**	375,000
6.75% Senior Notes, principal due at maturity in January 2014; interest payable semi-annually in January and July at 6.75%.	**150,000**	150,000
7.75% Senior Notes, principal due at maturity in June 2017; interest payable semi-annually in June and December at 7.75%. These notes were issued with a $13.4 million discount, of which $12.7 million was unamortized at December 31, 2009.	**452,300**	
	1,149,099	1,192,922
Less: Current portion of long-term debt		(290)
	$ 1,149,099	$ 1,192,632

Revolving Credit Facility. During December 2007, the Company entered into a $450.0 million senior secured revolving credit facility (the Revolving Credit Facility) arranged by Banc of America Securities LLC and Wachovia Capital Markets, LLC. The Revolving Credit Facility is utilized to fund expansion and development projects, the stock repurchase program as further described in Note 14, as well as for working capital, capital expenditures, and general corporate purposes.

The Revolving Credit Facility has an aggregate principal capacity of $450.0 million and matures in December 2012. At the Company s option, interest on outstanding borrowings will be based on either a base rate plus a margin ranging from 0.00% to 0.50% or a London Interbank Offered Rate (LIBOR) plus a margin ranging from 0.75% to 1.50%. The applicable margins are subject to adjustments based on the Company s leverage ratio. Based on the Company s current leverage ratio, loans under the Revolving Credit Facility currently bear interest at the base rate plus a margin of 0.00% or at LIBOR plus a margin of 0.75%. As of December 31, 2009, the Company had $171.8 million in borrowings under the Revolving Credit Facility as well as $30.4 million in letters of credit outstanding.

Lehman Brothers Commercial Bank (Lehman), which holds a $15.0 million share in the Company s Revolving Credit Facility, is a defaulting lender under the terms of the credit agreement. At December 31, 2009, Lehman had funded $2.3 million in borrowings and $1.1 million in letters of credit that remained outstanding on the facility. The loan balance will be repaid on a pro-rata basis to the extent that LIBOR-based loans are repaid on tranches Lehman previously funded. It is the Company s expectation that going forward it will not have access to additional incremental funding from Lehman, and to the extent that their funding is reduced, it will not be

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replaced. The Company does not believe that this reduction of credit has a material effect on the Company s liquidity and capital resources. None of the other banks providing commitments under the Revolving Credit Facility have failed to fund borrowings the Company has requested. However, no assurance can be provided that all of the banks in the lending group will continue to operate as a going concern in the future. If any of the banks in the lending group were to fail, it is possible that the capacity under the Revolving Credit Facility would be reduced further.

The Revolving Credit Facility has a $20.0 million sublimit for swing line loans that enables the Company to borrow from Banc of America Securities LLC without advance notice at the base rate. The Revolving Credit Facility also has a $100.0 million sublimit for the issuance of standby letters of credit. The Company has an option to increase the availability under the Revolving Credit Facility by up to $300.0 million (consisting of revolving credit, term loans, or a combination of the two) subject to, among other things, the receipt of commitments for the increased amount.

The Revolving Credit Facility is secured by a pledge of all of the capital stock of the Company s domestic subsidiaries, 65% of the capital stock of the Company s foreign subsidiaries, all of the Company s accounts receivable, and all of the Company s deposit accounts.

The Revolving Credit Facility requires the Company to meet certain financial covenants, including, without limitation, a maximum total leverage ratio, a maximum secured leverage ratio, and a minimum interest coverage ratio. As of December 31, 2009, the Company was in compliance with all such covenants. In addition, the Revolving Credit Facility contains certain covenants which, among other things, limits both the incurrence of additional indebtedness, investments, payment of dividends, transactions with affiliates, asset sales, acquisitions, capital expenditures, mergers and consolidations, prepayments and modifications of other indebtedness, liens and encumbrances and other matters customarily restricted in such agreements. In addition, the Revolving Credit Facility is subject to certain cross-default provisions with terms of the Company s other indebtedness.

$375 Million 6.25% Senior Notes. Interest on the $375.0 million aggregate principal amount of the Company s 6.25% unsecured senior notes issued in March 2005 (the 6.25% Senior Notes) accrues at the stated rate and is payable on March 15 and September 15 of each year. The 6.25% Senior Notes are scheduled to mature on March 15, 2013. The Company may redeem all or a portion of the notes at redemption prices set forth in the indenture governing the 6.25% Senior Notes.

$150 Million 6.75% Senior Notes. Interest on the $150.0 million aggregate principal amount of the Company s 6.75% unsecured senior notes issued in January 2006 (the 6.75% Senior Notes) accrues at the stated rate and is payable on January 31 and July 31 of each year. The 6.75% Senior Notes are scheduled to mature on January 31, 2014. The Company may redeem all or a portion of the notes at redemption prices set forth in the indenture governing the 6.75% Senior Notes.

Refinancing Transaction. In May 2003, the Company completed the issuance of $250.0 million aggregate principal amount of 7.5% unsecured senior notes (the $250 Million 7.5% Senior Notes). In August 2003, the Company completed the issuance of $200.0 million aggregate principal amount of 7.5% unsecured senior notes (the $200 Million 7.5% Senior Notes). The $200 Million 7.5% Senior Notes were issued under the existing indenture and supplemental indenture governing the $250 Million 7.5% Senior Notes. Together, the $250 Million 7.5% Senior Notes and the $200 Million 7.5% Senior Notes are referred to herein as the 7.5% Senior Notes . Interest on the 7.5% Senior Notes accrued at the stated rate and was payable semi-annually on May 1 and November 1 of each year. However, the $200 Million 7.5% Senior Notes were issued at a price of 101.125% of the principal amount of the notes, resulting in a premium of $2.25 million, which was amortized as a

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reduction to interest expense over the term of the notes. The 7.5% Senior Notes were scheduled to mature on May 1, 2011.

On May 19, 2009, the Company announced a cash tender offer for any and all of its outstanding 7.5% Senior Notes. In conjunction with the tender offer, the Company solicited consents from holders of the 7.5% Senior Notes to effect certain proposed amendments to the indenture governing the 7.5% Senior Notes. Holders who validly tendered their 7.5% Senior Notes and provided their consents to the proposed amendments to the indenture governing the 7.5% Senior Notes prior to the consent payment deadline on June 2, 2009 (the Consent Date) were entitled to receive total consideration equal to $1,001.25 per $1,000 principal amount of the 7.5% Senior Notes, which included a consent payment of $1.25 per $1,000 principal amount of the 7.5% Senior Notes, plus any accrued and unpaid interest on the 7.5% Senior Notes up to, but not including, the payment date. Holders who validly tendered their 7.5% Senior Notes and provided their consents to the proposed amendments to the indenture governing the 7.5% Senior Notes after the Consent Date but on or prior to June 16, 2009 (the Expiration Date) were entitled to $1,000 per $1,000 principal amount of the 7.5% Senior Notes plus accrued and unpaid interest up to, but not including, the payment date. However, holders of the 7.5% Senior Notes who tendered after the Consent Date did not receive the consent payment.

On June 3, 2009, the Company completed the sale and issuance of $465.0 million aggregate principal amount of its 7.75% Senior Notes (the 7.75% Senior Notes) pursuant to a prospectus supplement under an automatically effective shelf registration statement that was filed by the Company with the SEC on May 19, 2009. The 7.75% Senior Notes were issued at a price of 97.116%, resulting in a yield to maturity of 8.25%. The Company used the net proceeds from the sale of the 7.75% Senior Notes to purchase (through the previously described tender offer), redeem, or otherwise acquire the Company s 7.5% Senior Notes, to pay fees and expenses, and for general corporate purposes. The Company reported a charge of $3.8 million during the second quarter of 2009 in connection with the purchase and redemption of the 7.5% Senior Notes. The Company capitalized approximately $10.5 million of costs associated with the issuance of the 7.75% Senior Notes.

Interest on the 7.75% Senior Notes accrues at the stated rate and is payable on June 1 and December 1 of each year. The 7.75% Senior Notes are scheduled to mature on June 1, 2017. At any time on or before June 1, 2012, the Company may redeem up to 35% of the notes with the net proceeds of certain equity offerings, as long as 65% of the aggregate principal amount of the notes remains outstanding after the redemption. The Company may redeem all or a portion of the notes on or after June 1, 2013. Redemption prices are set forth in the indenture governing the 7.75% Senior Notes.

Guarantees and Covenants. In connection with the registration with the SEC of the Company s then outstanding 9.875% Senior Notes pursuant to the terms and conditions of a Registration Rights Agreement, after obtaining consent of the lenders under a previously outstanding senior bank credit facility, the Company transferred the real property and related assets of the Company (as the parent corporation) to certain of its subsidiaries effective December 27, 2002. Accordingly, the Company (as the parent corporation to its subsidiaries) has no independent assets or operations (as defined under Rule 3-10(f) of Regulation S-X). As a result of this transfer, assets with an aggregate net book value of $2.5 billion are no longer directly available to the parent corporation to satisfy the obligations under the 6.25% Senior Notes, the 6.75% Senior Notes, or the 7.75% Senior Notes (collectively, the Senior Notes). Instead, the parent corporation must rely on distributions of the subsidiaries to satisfy its obligations under the Senior Notes. All of the parent corporation s domestic subsidiaries, including the subsidiaries to which the assets were transferred, have provided full and unconditional guarantees of the Senior Notes. Each of the Company s subsidiaries guaranteeing the Senior Notes are 100% owned subsidiaries of the Company; the subsidiary

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guarantees are full and unconditional and are joint and several obligations of the guarantors; and all non-guarantor subsidiaries are minor (as defined in Rule 3-10(h)(6) of Regulation S-X).

As of December 31, 2009, neither the Company nor any of its subsidiary guarantors had any material or significant restrictions on the Company s ability to obtain funds from its subsidiaries by dividend or loan or to transfer assets from such subsidiaries.

The indentures governing the Senior Notes contain certain customary covenants that, subject to certain exceptions and qualifications, restrict the Company s ability to, among other things, make restricted payments; incur additional debt or issue certain types of preferred stock; create or permit to exist certain liens; consolidate, merge or transfer all or substantially all of the Company s assets; and enter into transactions with affiliates. In addition, if the Company sells certain assets (and generally does not use the proceeds of such sales for certain specified purposes) or experiences specific kinds of changes in control, the Company must offer to repurchase all or a portion of the Senior Notes. The offer price for the Senior Notes in connection with an asset sale would be equal to 100% of the aggregate principal amount of the notes repurchased plus accrued and unpaid interest and liquidated damages, if any, on the notes repurchased to the date of purchase. The offer price for the Senior Notes in connection with a change in control would be 101% of the aggregate principal amount of the notes repurchased plus accrued and unpaid interest and liquidated damages, if any, on the notes repurchased to the date of purchase. The Senior Notes are also subject to certain cross-default provisions with the terms of the Company s Revolving Credit Facility, as more fully described hereafter.

Other Debt Transactions

Letters of Credit. At December 31, 2009 and 2008, the Company had $30.4 million and $32.2 million, respectively, in outstanding letters of credit. The letters of credit were issued to secure the Company s workers compensation and general liability insurance policies, performance bonds, and utility deposits. The letters of credit outstanding at December 31, 2009 were provided by a sub-facility under the Revolving Credit Facility.

Debt Maturities

Scheduled principal payments as of December 31, 2009 for the next five years and thereafter are as follows (in thousands):

2010	$
2011	
2012	171,799
2013	375,000
2014	150,000
Thereafter	465,000
Total principal payments	1,161,799
Unamortized bond discount	(12,700)
Total debt	$ 1,149,099

Cross-Default Provisions

The provisions of the Company s debt agreements relating to the Revolving Credit Facility and the Senior Notes contain certain cross-default provisions. Any events of default under the Revolving

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Credit Facility that results in the lenders actual acceleration of amounts outstanding thereunder also result in an event of default under the Senior Notes. Additionally, any events of default under the Senior Notes that give rise to the ability of the holders of such indebtedness to exercise their acceleration rights also result in an event of default under the Revolving Credit Facility.

If the Company were to be in default under the Revolving Credit Facility, and if the lenders under the Revolving Credit Facility elected to exercise their rights to accelerate the Company s obligations under the Revolving Credit Facility, such events could result in the acceleration of all or a portion of the Company s Senior Notes, which would have a material adverse effect on the Company s liquidity and financial position. The Company does not have sufficient working capital to satisfy its debt obligations in the event of an acceleration of all or a substantial portion of the Company s outstanding indebtedness.

12. INCOME TAXES

Income tax expense is comprised of the following components (in thousands):

	For the Years Ended December 31,		
	2009	2008	2007
Current provision			
Federal	**$ 52,914**	$ 55,258	$ 64,245
State	**6,209**	5,862	5,546
	59,123	61,120	69,791
Deferred provision			
Federal	**19,803**	25,609	8,972
State	**2,819**	4,204	604
	22,622	29,813	9,576
Income tax provision	**$ 81,745**	$ 90,933	$ 79,367

The current income tax provisions for 2009, 2008, and 2007 are net of $0.5 million, $0.7 million, and $1.4 million, respectively, of tax benefits of operating loss carryforwards.

Significant components of the Company s deferred tax assets and liabilities as of December 31, 2009 and 2008, are as follows (in thousands):

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	December 31,	
	2009	2008
Current deferred tax assets:		
Asset reserves and liabilities not yet deductible for tax	**$ 14,654**	$ 20,082
Net current deferred tax assets	**14,654**	20,082
Current deferred tax liabilities:		
Other	**(2,812)**	(3,974)
Net total current deferred tax assets	**$ 11,842**	$ 16,108
Noncurrent deferred tax assets:		
Asset reserves and liabilities not yet deductible for tax	**$ 17,763**	$ 16,158
Tax over book basis of certain assets	**21,339**	21,480
Net operating loss and tax credit carryforwards	**12,854**	17,114
Other	**2,797**	4,978
Total noncurrent deferred tax assets	**54,753**	59,730
Less valuation allowance	**(4,129)**	(6,533)
Net noncurrent deferred tax assets	**50,624**	53,197
Noncurrent deferred tax liabilities:		
Book over tax basis of certain assets	**(138,010)**	(120,523)
Other	**(874)**	(1,023)
Total noncurrent deferred tax liabilities	**(138,884)**	(121,546)
Net total noncurrent deferred tax liabilities	**$ (88,260)**	$ (68,349)

Deferred income taxes reflect the available net operating losses and tax credit carryforwards and the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Realization of the future tax benefits related to deferred tax assets is dependent on many factors, including the Company s past earnings history, expected future earnings, the character and jurisdiction of such earnings, unsettled circumstances that, if unfavorably resolved, would adversely affect utilization of its deferred tax assets, carryback and carryforward periods, and tax strategies that could potentially enhance the likelihood of realization of a deferred tax asset.

The tax benefits associated with equity-based compensation reduced income taxes payable by $6.0 million, $9.0 million, and $21.2 million during 2009, 2008, and 2007, respectively. Such benefits were recorded as increases to stockholders equity.

A reconciliation of the income tax provision at the statutory income tax rate and the effective tax rate as a percentage of income from continuing operations before income taxes for the years ended December 31, 2009, 2008, and 2007 is as follows:

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	2009	2008	2007
Statutory federal rate	**35.0%**	35.0%	35.0%
State taxes, net of federal tax benefit	**2.9**	3.1	2.7
Permanent differences	**0.5**	0.6	0.9
Change in valuation allowance	**(0.2)**	(0.1)	(0.3)
Changes in tax contingencies	**(2.4)**	0.4	
Other items, net	**(1.4)**	(1.3)	(0.6)
	34.4%	37.7%	37.7%

The Company has approximately $5.3 million in net operating losses applicable to various states that it expects to carryforward in future years to offset taxable income in such states. The Company has a valuation allowance of $0.9 million for the estimated amount of the net operating losses that will expire unused, in addition to a $3.3 million valuation allowance related to state tax credits that are also expected to expire unused. These net operating losses and state tax credits expire at various dates through 2025. Although the Company s estimate of future taxable income is based on current assumptions that it believes to be reasonable, the Company s assumptions may prove inaccurate and could change in the future, which could result in the expiration of additional net operating losses or credits. The Company would be required to establish a valuation allowance at such time that it no longer expected to utilize these net operating losses or credits, which could result in a material impact on its results of operations in the future.

The Company s effective tax rate was 34.4%, 37.7%, and 37.7% during 2009, 2008, and 2007, respectively. The Company s annual effective tax rate is lower in 2009 compared with 2008 and 2007 primarily as a result of an income tax benefit of $5.7 million for the reversal of a liability for uncertain tax positions, as further described hereafter. The Company s overall effective tax rate is estimated based on the Company s current projection of taxable income and could change in the future as a result of changes in these estimates, the implementation of additional tax strategies, changes in federal or state tax rates, changes in estimates related to uncertain tax positions, or changes in state apportionment factors, as well as changes in the valuation allowance applied to the Company s deferred tax assets that are based primarily on the amount of state net operating losses and tax credits that could expire unused.

In July 2006, the Financial Accounting Standards Board (FASB) issued new guidance related to accounting for tax contingencies, which prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The guidance in ASC 740 establishes a recognition threshold of more likely than not that a tax position will be sustained upon examination. The measurement attribute requires that a tax position be measured at the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement.

Upon adoption of the new guidance on January 1, 2007, the Company recognized a $2.2 million increase in the liability for uncertain tax positions net of certain benefits associated with state net operating losses, which was recorded as an adjustment to the January 1, 2007 balance of retained earnings. The Company has a $0.2 million liability recorded for uncertain tax positions as of December 31, 2009, included in other non-current liabilities in the accompanying balance sheet. The Company recognizes interest and penalties related to unrecognized tax positions in income tax expense and as of December 31, 2009 and 2008, the Company had approximately $34,000 and $0.9 million, respectively, for the payment of interest and penalties accrued in other liabilities. The total amount of unrecognized tax positions that, if recognized, would affect the effective tax rate is $0.1 million. The Company does not currently anticipate that the total amount of unrecognized tax positions will significantly increase or decrease in the next twelve months.

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The Company s U.S. federal and state income tax returns for tax years 2005 and beyond remain subject to examination by the Internal Revenue Service (IRS). During 2008, the Company was notified that the IRS would commence an audit of the Company s federal income tax returns for the years ended December 31, 2007 and 2006. The Company received a closing agreement from the IRS for the audits of its federal income tax returns for such years. During the third quarter of 2009, the Company recognized $5.7 million in income tax benefits associated with uncertain tax positions effectively settled upon completion of the audit. These uncertain tax positions were primarily associated with tax positions pertaining to refinancing transaction costs that were included on federal tax returns in earlier years, but contributed to net operating losses utilized in 2006. All states in which the Company files income tax returns follow the same statute of limitations as federal, with the exception of the following states whose tax years include December 31, 2003 through December 31, 2008: Arizona, California, Colorado, Kentucky, Michigan, Minnesota, New Jersey, Texas, and Wisconsin.

A reconciliation of the beginning and ending amount of unrecognized tax benefits, excluding interest and penalties, is as follows:

Unrecognized Benefit January 1, 2008	$ 5,036
Decreases from Prior Period Tax Positions	(111)
Increases from Current Period Tax Positions	774
Decreases Related to Settlements of Tax Positions	
Decreases Due to Lapse of Statute of Limitations	
Unrecognized Benefit December 31, 2008	$ 5,699
Decreases from Prior Period Tax Positions	**(45)**
Increases from Current Period Tax Positions	
Decreases Related to Settlements of Tax Positions	**(5,466)**
Decreases Due to Lapse of Statute of Limitations	
Unrecognized Benefit December 31, 2009	**$ 188**

13. DISCONTINUED OPERATIONS

Under the provisions of ASC 205-20, Discontinued Operations , the identification and classification of a facility as held for sale, or the termination of any of the Company s management contracts by expiration or otherwise, may result in the classification of the operating results of such facility, net of taxes, as a discontinued operation, so long as the financial results can be clearly identified, and so long as the Company does not have any significant continuing involvement in the operations of the component after the disposal or termination transaction.

The results of operations, net of taxes, and the assets and liabilities of five correctional facilities each as further described below, have been reflected in the accompanying consolidated financial statements as discontinued operations in accordance with ASC 205-20 for the years ended December 31, 2009, 2008, and 2007.

As a result of Shelby County s evolving relationship with the Tennessee Department of Children s Services (DCS) whereby the DCS prefers to oversee the juveniles at facilities under DCS control, the Company ceased operations of the 200-bed Shelby Training Center located in Memphis, Tennessee in August 2008. The Company reclassified the results of operations, net of taxes, and the assets and liabilities of this facility, excluding property and equipment, as discontinued operations upon termination of the management contract during the third quarter of 2008. The property and equipment of this facility will continue to be reported as continuing operations, as the Company retained ownership of the building and equipment and completed the purchase of the land during the fourth quarter of 2008 from Shelby County, Tennessee for $150,000.

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In May 2008, the Company notified the Bay County Commission of its intention to exercise the Company s option to terminate the operational management contract for the 1,150-bed Bay County Jail and Annex in Panama City, Florida, effective October 9, 2008. Accordingly, the Company s contract with the Bay County Commission expired in October 2008 and the results of operations, net of taxes, and the assets and liabilities of this facility are being reported as discontinued operations for all periods presented.

Pursuant to a re-bid of the management contracts, during September 2008, the Company was notified by the Texas Department of Criminal Justice (TDCJ) of its intent to transfer the management of the 500-bed B.M. Moore Correctional Center in Overton, Texas and the 518-bed Diboll Correctional Center in Diboll, Texas to another operator, upon the expiration of the management contracts on January 16, 2009. Both of these facilities are owned by the TDCJ. Accordingly, the results of operations, net of taxes, and the assets and liabilities of these two facilities are reported as discontinued operations upon termination of operations in the first quarter of 2009 for all periods presented.

During December 2008, the Company was notified by Hamilton County, Ohio of its intent to terminate the lease for the 850-bed Queensgate Correctional Facility located in Cincinnati, Ohio. The County elected to terminate the lease due to funding issues being experienced by the County. Accordingly, upon termination of the lease in the first quarter of 2009, the Company reclassified the results of operations, net of taxes, of this facility as discontinued operations for all periods presented. The property and equipment of this facility will continue to be reported as continuing operations, as the Company retained ownership of the land, building, and equipment.

The following table summarizes the results of operations for these facilities for the years ended December 31, 2009, 2008, and 2007 (in thousands):

	For the Years Ended December 31,		
	2009	2008	2007
REVENUE:			
Owned	**$**	$ 3,269	$ 6,715
Managed-only	**510**	25,457	29,280
Rental		2,262	2,163
	510	30,988	38,158
EXPENSES:			
Owned		3,354	5,840
Managed-only	**1,782**	25,288	27,125
Other			45
Depreciation and amortization	**4**	906	286
Goodwill impairment			1,020
	1,786	29,548	34,316
OPERATING INCOME (LOSS)	**(1,276)**	1,440	3,842
Other income (expense)	**6**	49	(5)
INCOME (LOSS) BEFORE INCOME TAXES	**(1,270)**	1,489	3,837
Income tax (expense) benefit	**481**	(546)	(1,465)

INCOME (LOSS) FROM DISCONTINUED OPERATIONS, NET OF TAXES	**$ (789)**	$ 943	$ 2,372

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The assets and liabilities of the discontinued operations presented in the accompanying consolidated balance sheets are as follows (in thousands):

	December 31,	
	2009	2008
ASSETS		
Accounts receivable	**$ 23**	$ 3,235
Prepaid expenses and other current assets	**43**	306
Total current assets	**66**	3,541
Property and equipment, net		154
Total assets	**$ 66**	$ 3,695
LIABILITIES		
Accounts payable and accrued expenses	**$ 673**	$ 2,034
Total current liabilities	**$ 673**	$ 2,034

14. STOCKHOLDERS EQUITY

Common Stock

Restricted shares. During 2009, the Company issued approximately 333,000 shares of restricted common stock and common stock units to certain of the Company s employees, with an aggregate value of $3.7 million, including 242,000 restricted shares or units to employees whose compensation is charged to general and administrative expense and 91,000 restricted shares to employees whose compensation is charged to operating expense. During 2008, the Company issued approximately 279,000 shares of restricted common stock to certain of the Company s employees, with an aggregate value of $7.5 million, including 218,000 restricted shares to employees whose compensation is charged to general and administrative expense and 61,000 shares to employees whose compensation is charged to operating expense.

The Company established performance-based vesting conditions on the shares of restricted common stock and common stock units awarded to the Company s officers and executive officers. Unless earlier vested under the terms of the agreements, shares or units issued to officers and executive officers are subject to vesting over a three-year period based upon the satisfaction of certain performance criteria. No more than one-third of such shares or units may vest in the first performance period; however, the performance criteria are cumulative for the three-year period. Unless earlier vested under the terms of the agreements the shares of restricted stock issued to other employees of the Company vest after three years of continuous service.

Nonvested restricted common stock transactions as of December 31, 2009 and for the year then ended are summarized below (in thousands, except per share amounts).

	Shares of restricted common stock and units	**Weighted average grant date fair value**
Nonvested at December 31, 2008	729	**$** 22.64
Granted	**333**	**$ 11.07**

Cancelled	**(30)**	**$**	**23.92**
Vested	**(330)**	**$**	**17.72**
Nonvested at December 31, 2009	**702**	**$**	**19.41**

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During 2009, 2008, and 2007, the Company expensed $5.7 million ($1.1 million of which was recorded in operating expenses and $4.6 million of which was recorded in general and administrative expenses), $5.9 million ($1.1 million of which was recorded in operating expenses and $4.8 million of which was recorded in general and administrative expenses), and $5.1 million ($1.0 million of which was recorded in operating expenses and $4.1 million of which was recorded in general and administrative expenses), net of forfeitures, relating to the restricted common stock and common stock units, respectively. As of December 31, 2009, the Company had $5.3 million of total unrecognized compensation cost related to restricted common stock and common stock units that is expected to be recognized over a remaining weighted-average period of 1.5 years.

Stock Repurchase Program. In November 2008 the Company s Board of Directors approved a stock repurchase program to purchase up to $150.0 million of the Company s common stock through December 31, 2009. During 2008 and 2009, the Company completed the purchase of 10.7 million shares at a total cost of $125.0 million at an average price of $11.72 per share. In February 2010, the Company s Board of Directors approved a new program to repurchase up to $250.0 million of our common stock through June 30, 2011. The program is intended to be implemented essentially the same as the previous repurchase program, through purchases made from time to time in the open market or in privately negotiated transactions, in accordance with Securities and Exchange Commission requirements.

Preferred Stock

The Company has the authority to issue 50.0 million shares of $0.01 par value per share preferred stock (the Preferred Stock). The Preferred Stock may be issued from time to time upon authorization by the Board of Directors, in such series and with such preferences, conversion or other rights, voting powers, restrictions, limitations as to dividends, qualifications or other provisions as may be fixed by the Company s board of directors.

Stock Warrants

In connection with a merger completed during 2000, the Company issued warrants for the purchase of approximately 225,000 shares of its common stock, at an exercise price of $11.10 per share. On August 8, 2007, 75,000 warrants were exercised at a price of $11.10 per share. The holder of such warrants elected to satisfy the cost of the warrants using a net share settlement method, resulting in the issuance of 48,000 shares of common stock by the Company. On October 23, 2008, the holder of the remaining 150,000 warrants elected to exercise the warrants using a net share settlement method, resulting in the issuance of 77,000 shares of stock by the Company.

Stock Option Plans

The Company has equity incentive plans under which, among other things, incentive and non-qualified stock options are granted to certain employees and non-employee directors of the Company by the compensation committee of the Company s board of directors. The options are granted with exercise prices equal to the fair market value on the date of grant. Vesting periods for options granted to employees generally range from three to four years. Options granted to non-employee directors vest on the first anniversary of the grant date. The term of such options is ten years from the date of grant.

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Stock option transactions relating to the Company s non-qualified stock option plans are summarized below (in thousands, except exercise prices):

	No. of Options	Weighted-Average Exercise Price of options	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at December 31, 2008	4,688	$ 14.22		
Granted	**826**	**11.93**		
Exercised	**(1,497)**	**10.13**		
Cancelled	**(108)**	**24.76**		
Outstanding at December 31, 2009	**3,909**	**$ 15.00**	**6.2**	**$ 22,496**
Exercisable at December 31, 2009	**2,541**	**$ 13.79**	**4.9**	**$ 16,983**

The aggregate intrinsic value in the table above represents the total pre-tax intrinsic value (the difference between the Company s average stock price during 2009 and the exercise price, multiplied by the number of in-the-money options) that would have been received by the option holders had all option holders exercised their options on December 31, 2009. This amount changes based on the fair market value of the Company s stock. The total intrinsic value of options exercised during the years ended December 31, 2009, 2008, and 2007 was $18.8 million, $19.1 million, and $49.1 million, respectively.

The weighted average fair value of options granted during 2009, 2008, and 2007 was $4.17, $7.68, and $8.70 per option, respectively, based on the estimated fair value using the Black-Scholes option-pricing model. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions:

	2009	2008	2007
Expected dividend yield	**0.0%**	0.0%	0.0%
Expected stock price volatility	**36.4%**	26.1%	25.4%
Risk-free interest rate	**1.8%**	3.0%	4.7%
Expected life of options	**5 years**	5 years	5 years

The Company estimates expected stock price volatility based on actual historical changes in the market value of the Company s stock. The risk-free interest rate is based on the U.S. Treasury yield with a term that is consistent with the expected life of the stock options. The expected life of stock options is based on the Company s historical experience and is calculated separately for groups of employees that have similar historical exercise behavior.

Nonvested stock option transactions relating to the Company s non-qualified stock option plans as of December 31, 2009 and changes during the year ended December 31, 2009 are summarized below (in thousands, except exercise prices):

	Number of options	Weighted average grant date fair value
Nonvested at December 31, 2008	1,160	$ 7.30
Granted	**826**	**$ 4.17**

Cancelled	**(50)**	**$**	**7.58**
Vested	**(569)**	**$**	**7.00**
Nonvested at December 31, 2009	**1,367**	**$**	**5.53**

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As of December 31, 2009, the Company had $4.1 million of total unrecognized compensation cost related to stock options that is expected to be recognized over a remaining weighted-average period of 1.8 years.

At the Company s 2007 annual meeting of stockholders held in May 2007, the Company s stockholders approved the 2008 Stock Incentive Plan that authorized the issuance of new awards in respect of an aggregate of up to 6.0 million shares. In addition, during the 2003 annual meeting the stockholders approved the adoption of the Company s Non-Employee Directors Compensation Plan, authorizing the Company to issue up to 225,000 shares of common stock pursuant to the plan. These changes were made in order to provide the Company with adequate means to retain and attract quality directors, officers and key employees through the granting of equity incentives. As of December 31, 2009, the Company had 2.8 million shares available for issuance under the 2008 Stock Incentive Plan and 0.2 million shares available for issuance under the Non-Employee Directors Compensation Plan. The Company also had 0.1 million shares available for issuance under its Amended and Restated 2000 Stock Incentive Plan.

15. EARNINGS PER SHARE

Basic earnings per share is computed by dividing net income available to common stockholders by the weighted average number of common shares outstanding during the year. Diluted earnings per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the entity. For the Company, diluted earnings per share is computed by dividing net income as adjusted, by the weighted average number of common shares after considering the additional dilution related to restricted common stock plans, stock options, and warrants.

A reconciliation of the numerator and denominator of the basic earnings per share computation to the numerator and denominator of the diluted earnings per share computation is as follows (in thousands, except per share data):

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	For the Years Ended December 31,		
	2009	2008	2007
NUMERATOR			
Basic:			
Income from continuing operations	**$ 155,743**	$ 149,998	$ 131,001
Income (loss) from discontinued operations, net of taxes	**(789)**	943	2,372
Net income	**$ 154,954**	$ 150,941	$ 133,373
Diluted:			
Income from continuing operations	**$ 155,743**	$ 149,998	$ 131,001
Income (loss) from discontinued operations, net of taxes	**(789)**	943	2,372
Diluted net income	**$ 154,954**	$ 150,941	$ 133,373
DENOMINATOR			
Basic:			
Weighted average common shares outstanding	**116,088**	124,464	122,553
Diluted:			
Weighted average common shares outstanding	**116,088**	124,464	122,553
Effect of dilutive securities:			
Stock options and warrants	**976**	1,536	2,480
Restricted stock-based compensation	**226**	250	348
Weighted average shares and assumed conversions	**117,290**	126,250	125,381
BASIC EARNINGS PER SHARE:			
Income from continuing operations	**$ 1.34**	$ 1.20	$ 1.07
Income (loss) from discontinued operations, net of taxes	**(0.01)**	0.01	0.02
Net income	**$ 1.33**	$ 1.21	$ 1.09
DILUTED EARNINGS PER SHARE:			
Income from continuing operations	**$ 1.33**	$ 1.19	$ 1.04
Income (loss) from discontinued operations, net of taxes	**(0.01)**	0.01	0.02
Net income	**$ 1.32**	$ 1.20	$ 1.06

16. COMMITMENTS AND CONTINGENCIES

Legal Proceedings

General. The nature of the Company s business results in claims and litigation alleging that it is liable for damages arising from the conduct of its employees, inmates, or others. The nature of such claims include, but is not limited to, claims arising from employee or inmate misconduct, medical malpractice, employment matters, property loss,

contractual claims, and personal injury or other damages resulting from contact with the Company s facilities, personnel or prisoners, including damages arising from a prisoner s escape or from a disturbance or riot at a facility. The Company maintains insurance to cover many of these claims, which may mitigate the risk that any single claim would have a material effect on the Company s consolidated financial position, results of operations, or cash flows, provided the claim is one for which coverage is available. The combination of self-insured retentions and deductible amounts means that, in the aggregate, the Company is subject to substantial self-insurance risk.

The Company records litigation reserves related to certain matters for which it is probable that a loss has been incurred and the range of such loss can be estimated. Based upon management s review of the potential claims and outstanding litigation and based upon management s experience and history of estimating losses, management believes a loss in excess of amounts already recognized would not be material to the Company s financial statements. In the opinion of management, there are no pending legal proceedings that would have a material effect on the

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Company s consolidated financial position, results of operations, or cash flows. Any receivable for insurance recoveries is recorded separately from the corresponding litigation reserve, and only if recovery is determined to be probable. Adversarial proceedings and litigation are, however, subject to inherent uncertainties, and unfavorable decisions and rulings could occur which could have a material adverse impact on the Company s consolidated financial position, results of operations, or cash flows for the period in which such decisions or rulings occur, or future periods. Expenses associated with legal proceedings may also fluctuate from quarter to quarter based on changes in the Company s assumptions, new developments, or by the effectiveness of the Company s litigation and settlement strategies.

Insurance Contingencies

Each of the Company s management contracts and the statutes of certain states require the maintenance of insurance. The Company maintains various insurance policies including employee health, workers compensation, automobile liability, and general liability insurance. These policies are fixed premium policies with various deductible amounts that are self-funded by the Company. Reserves are provided for estimated incurred claims for which it is probable that a loss has been incurred and the range of such loss can be estimated.

Guarantees

Hardeman County Correctional Facilities Corporation (HCCFC) is a nonprofit, mutual benefit corporation organized under the Tennessee Nonprofit Corporation Act to purchase, construct, improve, equip, finance, own and manage a detention facility located in Hardeman County, Tennessee. HCCFC was created as an instrumentality of Hardeman County to implement the County s incarceration agreement with the state of Tennessee to house certain inmates. During 1997, HCCFC issued $72.7 million of revenue bonds, which were primarily used for the construction of a 2,016-bed medium security correctional facility. In addition, HCCFC entered into a construction and management agreement with the Company in order to assure the timely and coordinated acquisition, construction, development, marketing and operation of the correctional facility.

HCCFC leases the correctional facility to Hardeman County in exchange for all revenue from the operation of the facility. HCCFC has, in turn, entered into a management agreement with the Company for the correctional facility. In connection with the issuance of the revenue bonds, the Company is obligated, under a debt service deficit agreement, to pay the trustee of the bond s trust indenture (the Trustee) amounts necessary to pay any debt service deficits consisting of principal and interest requirements (outstanding principal balance of $41.7 million at December 31, 2009 plus future interest payments), if there is any default. In addition, in the event the state of Tennessee, which is currently utilizing the facility to house certain inmates, exercises its option to purchase the correctional facility, the Company is also obligated to pay the difference between principal and interest owed on the bonds on the date set for the redemption of the bonds and amounts paid by the state of Tennessee for the facility plus all other funds on deposit with the Trustee and available for redemption of the bonds. Ownership of the facility reverts to the state of Tennessee in 2017 at no cost. Therefore, the Company does not currently believe the state of Tennessee will exercise its option to purchase the facility. At December 31, 2009, the outstanding principal balance of the bonds exceeded the purchase price option by $11.5 million.

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Retirement Plan

All employees of the Company are eligible to participate in the Corrections Corporation of America 401(k) Savings and Retirement Plan (the Plan) upon reaching age 18 and completing one year of qualified service. Eligible employees may contribute up to 90% of their eligible compensation subject to IRS limitations. For the years ended December 31, 2009, 2008, and 2007, the Company provided a discretionary matching contribution equal to 100% of the employee s contributions up to 5% of the employee s eligible compensation to employees with at least one thousand hours of employment in the plan year, and who were employed by the Company on the last day of the plan year. Employer contributions and investment earnings or losses thereon become vested 20% after two years of service, 40% after three years of service, 80% after four years of service, and 100% after five or more years of service.

During the years ended December 31, 2009, 2008, and 2007, the Company s discretionary contributions to the Plan, net of forfeitures, were $8.5 million, $8.3 million, and $8.2 million, respectively.

Deferred Compensation Plans

During 2002, the compensation committee of the board of directors approved the Company s adoption of two non-qualified deferred compensation plans (the Deferred Compensation Plans) for non-employee directors and for certain senior executives. The Deferred Compensation Plans are unfunded plans maintained for the purpose of providing the Company s directors and certain of its senior executives the opportunity to defer a portion of their compensation. Under the terms of the Deferred Compensation Plans, certain senior executives may elect to contribute on a pre-tax basis up to 50% of their base salary and up to 100% of their cash bonus, and non-employee directors may elect to contribute on a pre-tax basis up to 100% of their director retainer and meeting fees. During the years ended December 31, 2009, 2008, and 2007, the Company matched 100% of employee contributions up to 5% of total cash compensation. The Company also contributes a fixed rate of return on balances in the Deferred Compensation Plans, determined at the beginning of each plan year. Matching contributions and investment earnings thereon vest over a three-year period from the date of each contribution. Vesting provisions of the Plan were amended effective January 1, 2005 to conform to the vesting provisions of the Company s 401(k) Plan for all matching contributions beginning in 2005. Distributions are generally payable no earlier than five years subsequent to the date an individual becomes a participant in the Plan, or upon termination of employment (or the date a director ceases to serve as a director of the Company), at the election of the participant. Distributions to senior executives must commence on or before the later of 60 days after the participant s separation from service or the fifteenth day of the month following the month the individual attains age 65.

During 2009, 2008, and 2007, the Company provided a fixed return of 6.5%, 7.5%, and 7.5% to participants in the Deferred Compensation Plans, respectively. The Company has purchased life insurance policies on the lives of certain employees of the Company, which are intended to fund distributions from the Deferred Compensation Plans. The Company is the sole beneficiary of such policies. At the inception of the Deferred Compensation Plans, the Company established an irrevocable Rabbi Trust to secure the plans obligations. However, assets in the Deferred Compensation Plans are subject to creditor claims in the event of bankruptcy. During 2009, 2008, and 2007, the Company recorded $360,000, $385,000 and $365,000, respectively, of matching contributions as general and administrative expense associated with the Deferred Compensation Plans. As of December 31, 2009 and 2008, the Company s liability related to the Deferred

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Compensation Plans was $8.3 million and $7.0 million, respectively, which was reflected in accounts payable and accrued expenses and other liabilities in the accompanying balance sheets.

Employment and Severance Agreements

The Company currently has employment agreements with several of its executive officers, which provide for the payment of certain severance amounts upon termination of employment under certain circumstances or a change of control, as defined in the agreements.

17. SEGMENT REPORTING

As of December 31, 2009, the Company owned and managed 44 correctional and detention facilities, and managed 21 correctional and detention facilities it does not own. Management views the Company s operating results in two reportable segments: owned and managed correctional and detention facilities and managed-only correctional and detention facilities. The accounting policies of the reportable segments are the same as those described in Note 2. Owned and managed facilities include the operating results of those facilities owned and managed by the Company. Managed-only facilities include the operating results of those facilities owned by a third party and managed by the Company. The Company measures the operating performance of each facility within the above two reportable segments, without differentiation, based on facility contribution. The Company defines facility contribution as a facility s operating income or loss from operations before interest, taxes, goodwill impairment, depreciation and amortization. Since each of the Company s facilities within the two reportable segments exhibit similar economic characteristics, provide similar services to governmental agencies, and operate under a similar set of operating procedures and regulatory guidelines, the facilities within the identified segments have been aggregated and reported as one reportable segment.

The revenue and facility contribution for the reportable segments and a reconciliation to the Company s operating income is as follows for the three years ended December 31, 2009, 2008, and 2007 (in thousands):

	For the Years Ended December 31,		
	2009	2008	2007
Revenue:			
Owned and managed	**$ 1,313,734**	$ 1,229,339	$ 1,091,233
Managed-only	**349,611**	345,248	333,127
Total management revenue	**1,663,345**	1,574,587	1,424,360
Operating expenses:			
Owned and managed	**850,760**	798,147	718,155
Managed-only	**303,882**	295,126	284,534
Total operating expenses	**1,154,642**	1,093,273	1,002,689
Facility contribution:			
Owned and managed	**462,974**	431,192	373,078
Managed-only	**45,729**	50,122	48,593
Total facility contribution	**508,703**	481,314	421,671
Other revenue (expense):			
Rental and other revenue	**6,618**	9,582	17,865
Other operating expense	**(14,030)**	(19,406)	(22,351)

General and administrative expense	**(86,537)**	(80,308)	(74,399)
Depreciation and amortization	**(100,799)**	(90,555)	(78,396)
Goodwill impairment			(554)
Operating income	**$ 313,955**	$ 300,627	$ 263,836

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The following table summarizes capital expenditures for the reportable segments for the years ended December 31, 2009, 2008, and 2007 (in thousands):

	For the Years Ended December 31,		
	2009	2008	2007
Capital expenditures:			
Owned and managed	**$ 118,191**	$ 465,235	$ 344,287
Managed-only	**12,713**	4,508	10,771
Corporate and other	**15,332**	12,239	17,838
Discontinued operations		231	266
Total capital expenditures	**$ 146,236**	$ 482,213	$ 373,162

The assets for the reportable segments are as follows (in thousands):

	December 31,	
	2009	2008
Assets:		
Owned and managed	**$ 2,605,023**	$ 2,582,485
Managed-only	**116,460**	113,092
Corporate and other	**184,194**	172,102
Discontinued operations	**66**	3,695
Total assets	**$ 2,905,743**	$ 2,871,374

18. SUBSEQUENT EVENTS

In May 2009, the FASB issued ASC 855, Subsequent Events , effective for interim or annual periods ending after June 15, 2009. ASC 855 establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. Although, there is new terminology, the standard is based on the same principles as those that currently existed in practice. The new ASC does require companies to disclose the date through which the entity has evaluated subsequent events. The Company has evaluated subsequent events through the date of filing this annual report on February 24, 2010.

During February 2010, the Company issued approximately 254,000 shares of restricted common stock and common stock units to certain of the Company s employees, with an aggregate value of $5.2 million. Unless earlier vested under the terms of the restricted stock unit agreement, approximately 209,000 restricted stock units were issued to officers and executive officers and are subject to vesting over a three-year period based upon satisfaction of certain performance criteria for the fiscal years ending December 31, 2010, 2011, and 2012. No more than one third of such restricted stock units may vest in the first performance period; however, the performance criteria are cumulative for the three-year period. Any restricted stock units that become vested will be settled in shares of the Company s common stock. Unless earlier vested under the terms of the restricted stock agreements, approximately 45,000 shares of restricted stock issued to certain other employees of the Company vest during 2013.

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19. SELECTED QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

Selected quarterly financial information for each of the quarters in the years ended December 31, 2009 and 2008 is as follows (in thousands, except per share data):

	March 31, 2009	June 30, 2009	September 30, 2009	December 31, 2009
Revenue	$ 404,154	$ 412,693	$ 426,018	$ 427,098
Operating income	74,942	74,922	79,341	84,750
Loss from discontinued operations, net of taxes	(789)			
Net income	34,597	32,614	45,252	42,491
Basic earnings per share:				
Net income	$ 0.29	$ 0.28	$ 0.39	$ 0.37
Diluted earnings per share:				
Net income	$ 0.29	$ 0.28	$ 0.39	$ 0.36

	March 31, 2008	June 30, 2008	September 30, 2008	December 31, 2008
Revenue	$ 379,411	$ 390,348	$ 403,757	$ 410,653
Operating income	69,650	74,035	74,397	82,545
Income from discontinued operations, net of taxes	522	259	129	33
Net income	34,998	37,527	37,891	40,525
Basic earnings per share:				
Net income	$ 0.28	$ 0.30	$ 0.30	$ 0.32
Diluted earnings per share:				
Net income	$ 0.28	$ 0.30	$ 0.30	$ 0.32

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this Annual Report to be signed on its behalf by the undersigned, thereunto duly authorized.

CORRECTIONS CORPORATION OF AMERICA

Date: February 24, 2010

By: /s/ Damon T. Hininger
Damon T. Hininger, President and Chief Executive Officer

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

/s/ Damon T. Hininger — February 24, 2010

Damon T. Hininger, President and Chief Executive Officer (Principal Executive Officer)

/s/ Todd J Mullenger — February 24, 2010

Todd J Mullenger, Executive Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)

/s/ John D. Ferguson — February 24, 2010

John D. Ferguson, Chairman of the Board of Directors

/s/ William F. Andrews — February 24, 2010

William F. Andrews, Director

/s/ Donna M. Alvarado — February 24, 2010

Donna M. Alvarado, Director

/s/ John D. Correnti — February 24, 2010

John D. Correnti, Director

/s/ Dennis W. DeConcini — February 24, 2010

Dennis W. DeConcini, Director

/s/ John R. Horne — February 24, 2010

John R. Horne, Director

/s/ C. Michael Jacobi	February 24, 2010
C. Michael Jacobi, Director	
/s/ Thurgood Marshall, Jr.	February 24, 2010
Thurgood Marshall, Jr., Director	
/s/ Charles L. Overby	February 24, 2010
Charles L. Overby, Director	
/s/ John R. Prann, Jr.	February 24, 2010
John R. Prann, Jr., Director	
/s/ Joseph V. Russell	February 24, 2010
Joseph V. Russell, Director	
/s/ Henri L. Wedell	February 24, 2010
Henri L. Wedell, Director	

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INDEX OF EXHIBITS

Exhibits marked with an * are filed herewith. Other exhibits have previously been filed with the Securities and Exchange Commission (the Commission) and are incorporated herein by reference.

Exhibit Number	Description of Exhibits
3.1	Amended and Restated Charter of the Company (restated for Commission filing purposes only) (previously filed as Exhibit 3.1 to the Company s Annual Report on Form 10-K (Commission File no. 001-16109), filed with the Commission on February 27, 2008 and incorporated herein by this reference).
3.2	Fifth Amended and Restated Bylaws of the Company (previously filed as Exhibit 3.1 to the Company s Current Report on Form 8-K (Commission File no. 001-16109), filed with the Commission on August 18, 2009 and incorporated herein by this reference).
4.1	Provisions defining the rights of stockholders of the Company are found in Article V of the Amended and Restated Charter of the Company, as amended (included as Exhibit 3.1 hereto), and Article II of the Fifth Amended and Restated Bylaws of the Company (included as Exhibit 3.2 hereto).
4.2	Specimen of certificate representing shares of the Company s Common Stock (previously filed as Exhibit 4.2 to the Company s Annual Report on Form 10-K (Commission File no. 001-16109), filed with the Commission on March 22, 2002 and incorporated herein by this reference).
4.3	Indenture, dated as of March 23, 2005, by and among the Company, certain of its subsidiaries and U.S. Bank National Association, as Trustee, providing for the Company s 6¾ % Senior Notes due 2013 with form of note attached (previously filed as Exhibit 4.1 to the Company s Current Report on Form 8-K (Commission File no. 001-16109), filed with the Commission on March 24, 2005 and incorporated herein by this reference).
4.4	Indenture, dated as of January 23, 2006, by and among the Company, certain of its subsidiaries and U.S. Bank National Association, as Trustee (previously filed as Exhibit 4.1 to the Company s Current Report on Form 8-K (Commission File no. 001-16109), filed with the Commission on January 24, 2006 and incorporated herein by this reference).

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Exhibit Number	Description of Exhibits
4.5	First Supplemental Indenture, dated as of January 23, 2006, by and among the Company, certain of its subsidiaries and U.S. Bank National Association, as Trustee, providing for the Company s 6.75% Senior Notes due 2014, with form of note attached (previously filed as Exhibit 4.2 to the Company s Current Report on Form 8-K (Commission File no. 001-16109), filed with the Commission on January 24, 2006 and incorporated herein by this reference).
4.6	First Supplement, dated as of May 14, 2009, to the First Supplemental Indenture, dated as of January 23, 2006, by and among the Company, certain of its subsidiaries and U.S. Bank National Association, as Trustee (previously filed as Exhibit 4.1 to the Company s Current Report on Form 8-K (Commission File no. 001-16109), filed with the Commission on May 20, 2009 and incorporated herein by this reference).
4.7	First Supplemental Indenture, dated as of May 14, 2009, to the Indenture, dated as of March 23, 2005, by and among the Company, certain of its subsidiaries and U.S. Bank National Association, as Trustee, providing for the Company s 6¾% Senior Notes due 2013 (previously filed as Exhibit 4.2 to the Company s Current Report on Form 8-K (Commission File no. 001-16109), filed with the Commission on May 20, 2009 and incorporated herein by this reference).
4.8	Second Supplemental Indenture, dated as of June 3, 2009, by and among the Company, certain of its subsidiaries and U.S. Bank National Association, as Trustee, providing for the Company s 7 ¾ % Senior Notes due 2017, with form of note attached (previously filed as Exhibit 4.2 to the Company s Current Report on Form 8-K (Commission File no. 001-16109), filed with the Commission on June 3, 2009 and incorporated herein by this reference).
10.1	Credit Agreement, dated as of December 21, 2007, by and among the Company, as Borrower, certain lenders and Bank of America, N.A., as Administrative Agent for the lenders (previously filed as Exhibit 10.1 to the Company s Current Report on Form 8-K (Commission File no. 001-16109), filed with the Commission on December 21, 2007 and incorporated herein by this reference).
10.2	Amendment No. 1 to Credit Agreement, dated as of May 19, 2009, by and among the Company, Bank of America, N.A., as administrative agent, and each of the lenders signatory thereto (previously filed as Exhibit 10.1 to the Company s Current Report on Form 8-K (Commission File no. 001-16109), filed with the Commission on May 20, 2009 and incorporated herein by this reference).

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Exhibit Number	Description of Exhibits
10.3	The Company s Amended and Restated 1997 Employee Share Incentive Plan (previously filed as Exhibit 10.15 to the Company s Annual Report on Form 10-K (Commission File no. 001-16109), filed with the Commission on March 12, 2004 and incorporated herein by this reference).
10.4	Form of Non-qualified Stock Option Agreement for the Company s Amended and Restated 1997 Employee Share Incentive Plan (previously filed as Exhibit 10.17 to the Company s Annual Report on Form 10-K (Commission File no. 001-16109), filed with the Commission on March 7, 2005 and incorporated herein by this reference).
10.5	Old Prison Realty s Non-Employee Trustees Compensation Plan (previously filed as Exhibit 4.3 to Old Prison Realty s Registration Statement on Form S-8 (Commission File no. 333-58339), filed with the Commission on July 1, 1998 and incorporated herein by this reference).
10.6	The Company s Amended and Restated 2000 Stock Incentive Plan (previously filed as Exhibit 10.20 to the Company s Annual Report on Form 10-K (Commission File no. 001-16109), filed with the Commission on March 12, 2004 and incorporated herein by this reference).
10.7	Amendment No. 1 to the Company s Amended and Restated 2000 Stock Incentive Plan (previously filed as Exhibit 10.1 to the Company s Quarterly Report on Form 10-Q (Commission File no. 001-16109), filed with the Commission on November 5, 2004 and incorporated herein by this reference).
10.8	First Amendment to Amended and Restated 2000 Stock Incentive Plan of the Company (previously filed as Exhibit 10.1 to the Company s Quarterly Report on Form 10-Q (Commission File no. 001-16109), filed with the Commission on August 7, 2008 and incorporated herein by this reference).
10.9	Second Amendment to Amended and Restated 2000 Stock Incentive Plan of the Company (previously filed as Exhibit 10.3 to the Company s Current Report on Form 8-K (Commission File no. 001-16109), filed with the Commission on August 18, 2009 and incorporated herein by this reference).
10.10	The Company s Non-Employee Directors Compensation Plan (previously filed as Appendix C to the Company s definitive Proxy Statement relating to its Annual Meeting of Stockholders (Commission File no. 001-16109), filed with the Commission on April 11, 2003 and incorporated herein by this reference).

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Exhibit Number	Description of Exhibits
10.11	Form of Employee Non-qualified Stock Option Agreement for the Company s Amended and Restated 2000 Stock Incentive Plan (previously filed as Exhibit 10.15 to the Company s Annual Report on Form 10-K (Commission File no. 001-16109), filed with the Commission on March 7, 2006 and incorporated herein by this reference).
10.12	Form of Director Non-qualified Stock Option Agreement for the Company s Amended and Restated 2000 Stock Incentive Plan (previously filed as Exhibit 10.1 to the Company s Quarterly Report on Form 10-Q (Commission File no. 001-16109), filed with the Commission on August 7, 2007 and incorporated herein by this reference).
10.13	Form of Restricted Stock Agreement for the Company s Amended and Restated 2000 Stock Incentive Plan (previously filed as Exhibit 10.16 to the Company s Annual Report on Form 10-K (Commission File no. 001-16109), filed with the Commission on March 7, 2006 and incorporated herein by this reference).
10.14	Form of Resale Restriction Agreement for certain stock option award agreements issued under the Company s Amended and Restated 1997 Employee Share Incentive Plan and the Company s Amended and Restated 2000 Stock Incentive Plan (previously filed as Exhibit 10.1 to the Company s Current Report on Form 8-K (Commission File no. 001-16109), filed with the Commission on December 14, 2005 and incorporated herein by this reference).
10.15	Form of Resale Restriction Agreement for key employees for certain stock option award agreements issued under the Company s Amended and Restated 1997 Employee Share Incentive Plan and the Company s Amended and Restated 2000 Stock Incentive Plan (previously filed as Exhibit 10.2 to the Company s Current Report on Form 8-K (Commission File no. 001-16109), filed with the Commission on December 14, 2005 and incorporated herein by this reference).
10.16	The Company s 2008 Stock Incentive Plan (previously filed as Exhibit 10.1 to the Company s Current Report on Form 8-K (Commission File no. 001-16109), filed with the Commission on May 11, 2007 and incorporated herein by this reference).
10.17	Form of Executive Non-qualified Stock Option Agreement for the Company s 2008 Stock Incentive Plan (previously filed as Exhibit 10.2 to the Company s Current Report on Form 8-K (Commission File no. 001-16109), filed with the Commission on February 21, 2008 and incorporated herein by this reference).

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Exhibit Number	Description of Exhibits
10.18	Amended Form of Executive Non-qualified Stock Option Agreement for the Company s 2008 Stock Incentive Plan (previously filed as Exhibit 10.2 to the Company s Current Report on Form 8-K (Commission File no. 001-16109), filed with the Commission on February 23, 2009 and incorporated herein by this reference).
10.19	Form of Director Non-qualified Stock Option Agreement for the Company s 2008 Stock Incentive Plan (previously filed as Exhibit 10.3 to the Company s Current Report on Form 8-K (Commission File no. 001-16109), filed with the Commission on February 21, 2008 and incorporated herein by this reference).
10.20	Form of Restricted Stock Agreement for the Company s 2008 Stock Incentive Plan (previously filed as Exhibit 10.4 to the Company s Current Report on Form 8-K (Commission File no. 001-16109), filed with the Commission on February 21, 2008 and incorporated herein by this reference).
10.21	Form of Executive Restricted Stock Unit Agreement for the Company s 2008 Stock Incentive Plan (previously filed as Exhibit 10.1 to the Company s Current Report on Form 8-K (Commission File no. 001-16109), filed with the Commission on February 23, 2009 and incorporated herein by this reference).
10.22	Second Amended and Restated Employment Agreement, dated as of August 15, 2007, by and between the Company and John D. Ferguson (previously filed as Exhibit 10.3 to the Company s Current Report on Form 8-K (Commission File no. 001-16109), filed with the Commission on August 16, 2007 and incorporated herein by this reference).
10.23	First Amendment to Second Amended and Restated Employment Agreement, dated as of August 21, 2008, by and between the Company and John D. Ferguson (previously filed as Exhibit 10.1 to the Company s Current Report on Form 8-K (Commission File no. 001-16109), filed with the Commission on August 22, 2008 and incorporated herein by this reference).
10.24	Second Amendment to Second Amended and Restated Employment Agreement, dated as of December 11, 2008, with John D. Ferguson (previously filed as Exhibit 10.1 to the Company s Current Report on Form 8-K (Commission File no. 001-16109), filed with the Commission on December 12, 2008 and incorporated herein by this reference).

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Exhibit Number	Description of Exhibits
10.25	First Amended and Restated Employment Agreement, dated as of August 15, 2007, by and between the Company and Todd J Mullenger (previously filed as Exhibit 10.4 to the Company s Current Report on Form 8-K (Commission File no. 001-16109), filed with the Commission on August 16, 2007 and incorporated herein by this reference).
10.26	First Amended and Restated Employment Agreement, dated as of August 15, 2007, by and between the Company and G.A. Puryear IV (previously filed as Exhibit 10.7 to the Company s Current Report on Form 8-K (Commission File no. 001-16109), filed with the Commission on August 16, 2007 and incorporated herein by this reference).
10.27	Second Amended and Restated Employment Agreement, dated as of August 15, 2007, by and between the Company and Richard P. Seiter (previously filed as Exhibit 10.6 to the Company s Current Report on Form 8-K (Commission File no. 001-16109), filed with the Commission on August 16, 2007 and incorporated herein by this reference).
10.28	First Amended and Restated Employment Agreement, dated as of August 15, 2007, by and between the Company and William K. Rusak (previously filed as Exhibit 10.5 to the Company s Current Report on Form 8-K (Commission File no. 001-16109), filed with the Commission on August 16, 2007 and incorporated herein by this reference).
10.29	First Amendment to First Amended and Restated Employment Agreement, dated as of December 11, 2008, with William K. Rusak (previously filed as Exhibit 10.2 to the Company s Current Report on Form 8-K (Commission File no. 001-16109), filed with the Commission on December 12, 2008 and incorporated herein by this reference).
10.30	First Amended and Restated Employment Agreement, dated as of August 21, 2008, by and between the Company and Damon T. Hininger (previously filed as Exhibit 10.2 to the Company s Current Report on Form 8-K (Commission File no. 001-16109), filed with the Commission on August 22, 2008 and incorporated herein by this reference).
10.31	First Amendment to First Amended and Restated Employment Agreement, dated as of October 15, 2009, with Damon T. Hininger (previously filed as Exhibit 10.1 to the Company s Current Report on Form 8-K (Commission File no. 001-16109), filed with the Commission on October 15, 2009 and incorporated herein by this reference).

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Exhibit Number	Description of Exhibits
10.32	First Amended and Restated Employment Agreement, dated as of August 21, 2008, by and between the Company and Anthony L. Grande (previously filed as Exhibit 10.3 to the Company s Current Report on Form 8-K (Commission File no. 001-16109), filed with the Commission on August 22, 2008 and incorporated herein by this reference).
10.33	Employment Agreement, dated as of September 9, 2009, with Brian D. Collins (previously filed as Exhibit 10.1 to the Company s Current Report on Form 8-K (Commission File no. 001-16109), filed with the Commission on September 10, 2009 and incorporated herein by this reference).
10.34	Amended and Restated Non-Employee Director Deferred Compensation Plan (previously filed as Exhibit 10.1 to the Company s Current Report on Form 8-K (Commission File no. 001-16109), filed with the Commission on August 16, 2007 and incorporated herein by this reference).
10.35*	Amendment to the Amended and Restated Non-Employee Director Deferred Compensation Plan.
10.36	Amended and Restated Executive Deferred Compensation Plan (previously filed as Exhibit 10.2 to the Company s Current Report on Form 8-K (Commission File no. 001-16109), filed with the Commission on August 16, 2007 and incorporated herein by this reference).
10.37	Form of Indemnification Agreement (previously filed as Exhibit 10.1 to the Company s Current Report on Form 8-K (Commission File no. 001-16109), filed with the Commission on August 18, 2009 and incorporated herein by this reference).
10.38	Notice Letter from John D. Ferguson to the Company (previously filed as Exhibit 10.2 to the Company s Current Report on Form 8-K (Commission File no. 001-16109), filed with the Commission on August 18, 2009 and incorporated herein by this reference).
10.39	Letter Agreement, dated as of October 15, 2009, with John D. Ferguson (previously filed as Exhibit 10.2 to the Company s Current Report on Form 8-K (Commission File no. 001-16109), filed with the Commission on October 15, 2009 and incorporated herein by this reference).
10.40*	Summary of Director and Executive Officer Compensation.
21*	Subsidiaries of the Company.
23.1*	Consent of Independent Registered Public Accounting Firm.

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Exhibit Number	Description of Exhibits
31.1*	Certification of the Company s Chief Executive Officer pursuant to Securities and Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of the Company s Chief Financial Officer pursuant to Securities and Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1*	Certification of the Company s Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2*	Certification of the Company s Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.