

WACKENHUT CORRECTIONS CORP

Form 10-Q/A

November 10, 2003

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**FORM 10-Q/A**

**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934.**

For the quarterly period ended June 29, 2003

**OR**

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

**Commission file number 1-14260**

**WACKENHUT CORRECTIONS CORPORATION**

(Exact name of registrant as specified in its charter)

Florida

65-0043078

(State or other jurisdiction of  
incorporation or organization)

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

One Park Place,  
621 NW 53rd Street,  
Suite 700,  
Boca Raton, Florida

33487

(Address of principal executive offices)

(Zip code)

(561) 893-0101

(Registrant's telephone number, including area code)

**Former name, former address and former fiscal year, if changed since last report.**

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 twelve (12) months (or for such shorter period that the registrant was required to file such report), 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 is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes x

No o

At October 14, 2003, 9,328,522 shares of the registrant's Common Stock were issued and outstanding.

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**EXPLANATORY NOTE**

This Form 10-Q/A is being filed for the sole purpose of amending certain text and footnote disclosure in the unaudited condensed consolidated financial statements of Wackenhut Corrections Corporation for the twenty-six weeks ended June 29, 2003. Item 6 is also amended to include the certifications by the Chief Executive Officer and the Chief Financial Officer.

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**WACKENHUT CORRECTIONS CORPORATION**

**PART I FINANCIAL INFORMATION**

**ITEM 1. FINANCIAL STATEMENTS**

The following condensed consolidated financial statements of Wackenhut Corrections Corporation, a Florida corporation (the Company), have been prepared in accordance with the instructions to Form 10-Q and, therefore, omit or condense certain footnotes and other information normally included in financial statements prepared in accordance with generally accepted accounting principles. Certain amounts in the prior year have been reclassified to conform to the current presentation. In the opinion of management, all adjustments (consisting only of normal recurring accruals) necessary for a fair presentation of the financial information for the interim periods reported have been made. Results of operations for the twenty-six weeks ended June 29, 2003 are not necessarily indicative of the results for the entire fiscal year ending December 28, 2003.

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**WACKENHUT CORRECTIONS CORPORATION**  
**CONDENSED CONSOLIDATED STATEMENTS OF INCOME**  
**FOR THE THIRTEEN AND TWENTY-SIX WEEKS ENDED**  
**JUNE 29, 2003 AND JUNE 30, 2002**  
(In thousands except per share data)  
**(UNAUDITED)**

|   | Thirteen Weeks Ended |               | Twenty-six Weeks Ended |               |
|---|----------------------|---------------|------------------------|---------------|
|   | June 29, 2003        | June 30, 2002 | June 29, 2003          | June 30, 2002 |
| Revenues  | \$ 153,207           | \$ 141,192    | \$ 298,461             | \$ 281,374    |
| Operating expenses (including amounts related to The Wackenhut Corporation ( TWC ) of \$-, \$6,058, \$- and \$11,985, respectively) | 129,540              | 122,984       | 252,840                | 246,648       |
| Depreciation and amortization   | 3,606                | 2,439         | 6,919                  | 4,924         |
| G&A expense (including amounts related to TWC of \$551, \$806, \$1,206 and \$1,620, respectively)                                   | 10,115               | 8,286         | 19,050                 | 16,401        |
| Operating income  | 9,946                | 7,483         | 19,652                 | 13,401        |
| Interest income   | 1,415                | 1,067         | 2,544                  | 2,116         |
| Interest expense  | (3,088)              | (776)         | (6,091)                | (1,674)       |
| Income before income taxes and equity in earnings of affiliates   | 8,273                | 7,774         | 16,105                 | 13,843        |
| Provision for income taxes  | 3,412                | 4,003         | 6,692                  | 6,475         |
| Income before equity in earnings of affiliates  | 4,861                | 3,771         | 9,413                  | 7,368         |
| Equity in earnings of affiliates, net of income tax provision of \$1,042, \$916, \$1,491 and \$1,911, respectively                  | 1,438                | 1,634         | 2,058                  | 3,220         |
| Net income  | \$ 6,299             | \$ 5,405      | \$ 11,471              | \$ 10,588     |
| Basic earnings per share  | \$ 0.30              | \$ 0.26       | \$ 0.54                | \$ 0.50       |
| Basic weighted average shares outstanding   | 21,274               | 21,128        | 21,260                 | 21,052        |
| Diluted earnings per share  | \$ 0.29              | \$ 0.25       | \$ 0.54                | \$ 0.50       |
| Diluted weighted average shares outstanding   | 21,412               | 21,353        | 21,368                 | 21,314        |

The accompanying Notes to Condensed Consolidated Financial Statements are an integral part of these statements.

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**WACKENHUT CORRECTIONS CORPORATION**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
**JUNE 29, 2003 AND DECEMBER 29, 2002**  
(In thousands except share data)  
**(UNAUDITED)**

|  | June 29, 2003 | December 29,<br>2002 |
|--|---------------|----------------------|
| <b>ASSETS</b>  |               |                      |
| Current assets:  |               |                      |
| Cash and cash equivalents  | \$ 58,955     | \$ 35,240            |
| Accounts receivable, less allowance for doubtful<br>accounts of \$1,251 and \$1,644, respectively                          | 88,095        | 84,737               |
| Deferred income tax asset  | 8,426         | 7,161                |
| Other  | 7,598         | 12,445               |
|  | <hr/>         | <hr/>                |
| Total current assets   | 163,074       | 139,583              |
|  | <hr/>         | <hr/>                |
| Property and equipment, net  | 205,119       | 206,466              |
| Investments in and advances to affiliates  | 21,349        | 19,776               |
| Deferred income tax asset  | 1,058         | 119                  |
| Direct finance lease receivable  | 39,164        | 30,866               |
| Other non current assets   | 4,515         | 5,848                |
|  | <hr/>         | <hr/>                |
|  | \$434,279     | \$ 402,658           |
|  | <hr/>         | <hr/>                |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>  |               |                      |
| Current liabilities:   |               |                      |
| Accounts payable   | \$ 15,296     | \$ 10,138            |
| Accrued payroll and related taxes  | 16,074        | 17,489               |
| Accrued expenses   | 44,649        | 43,046               |
| Current portion of deferred revenue  | 1,811         | 2,551                |
| Current portion of long-term debt and<br>non-recourse debt   | 1,770         | 1,770                |
|  | <hr/>         | <hr/>                |
| Total current liabilities  | 79,600        | 74,994               |
|  | <hr/>         | <hr/>                |
| Deferred revenue   | 7,136         | 7,348                |
| Other  | 15,648        | 13,058               |
| Long-term debt   | 123,438       | 123,750              |
| Non-recourse debt  | 39,164        | 30,866               |
| Commitments and contingencies  |               |                      |
| Shareholders' equity:  |               |                      |
| Preferred stock, \$.01 par value, 10,000,000 shares<br>authorized  |               |                      |
| Common stock, \$.01 par value, 30,000,000 shares<br>authorized, 21,286,952 and 21,245,620 shares<br>issued and outstanding | 213           | 212                  |
| Additional paid-in capital   | 63,815        | 63,500               |
| Retained earnings  | 122,808       | 111,337              |
| Accumulated other comprehensive loss   | (17,543)      | (22,407)             |
|  | <hr/>         | <hr/>                |
| Total shareholders' equity   | 169,293       | 152,642              |
|  | <hr/>         | <hr/>                |

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\$434,279

\$ 402,658

The accompanying Notes to Condensed Consolidated Financial Statements are an integral part of these balance sheets.



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**WACKENHUT CORRECTIONS CORPORATION  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE TWENTY-SIX WEEKS ENDED  
JUNE 29, 2003 AND JUNE 30, 2002  
(In thousands)  
(UNAUDITED)**

|   | Twenty-six Weeks Ended |               |
|---|------------------------|---------------|
|   | June 29,<br>2003       | June 30, 2002 |
| Cash flows from operating activities:   |                        |               |
| Net income  | \$ 11,471              | \$ 10,588     |
| Adjustments to reconcile net income to net cash provided by<br>operating activities |                        |               |

The accompanying Notes to Condensed Consolidated Financial Statements are an integral part of these statements.

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**WACKENHUT CORRECTIONS CORPORATION  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(UNAUDITED)**

**1. SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies followed for quarterly financial reporting are the same as those disclosed in the Notes to Consolidated Financial Statements included in the Company's Form 10-K filed with the Securities and Exchange Commission on March 20, 2003 for the fiscal year ended December 29, 2002. Certain prior period amounts have been reclassified to conform with current period financial statement presentation.

*RECENT ACCOUNTING PRONOUNCEMENTS*

In April 2003, the FASB issued SFAS No. 149, Amendment of Statement 133 on Derivative Instruments and Hedging Activities. SFAS No. 149 amends and clarifies accounting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities under SFAS No. 133. In particular, this statement clarifies under what circumstances a contract with an initial net investment meets the characteristic of a derivative and when a derivative contains a financing component that warrants special reporting in the statement of cash flows. This statement is generally effective for contracts entered into or modified after June 30, 2003 and is not expected to have a material impact on the Company's financial statements. This statement is a forward-looking statement within the meaning of the Private Securities Litigation Act. See Forward-Looking Statements on page 16.

In May 2003, the FASB issued SFAS No. 150, Accounting for Certain Financial Instruments with Characteristics of Both Liability and Equity. SFAS No. 150 provides that certain financial instruments with characteristics of both liability and equity to be classified as a liability. The statement is effective July 1, 2003 for existing financial instruments and May 31, 2003 for new or modified financial instruments. The Company does not have financial instruments that qualify under this statement.

In January 2003, the FASB issued Interpretation No. 46, Consolidation of Variable Interest Entities, an interpretation of Accounting Research Bulletin No. 51 (the Interpretation). The Interpretation requires the consolidation of entities in which an enterprise absorbs a majority of the entity's expected losses, receives a majority of the entity's expected residual returns, or both, as a result of ownership, contractual or other financial interests in the entity. Currently, entities are generally consolidated by an enterprise when it has a controlling financial interest through ownership of a majority voting interest in the entity.

During 2000, the Company formed two joint ventures in South Africa to design, construct, manage and finance a prison in South Africa. South African Custodial Services Pty. Limited (SACS) was established to design, finance and build the prison and South African Custodial Management Pty Limited (SACM) was established to operate the prison. SACS was financed with approximately \$8 million in initial equity contributions from the joint venture partners and \$58.3 million in debt. The creditors of SACS do not have recourse to the Company. SACS entered into a contract with SACM to operate the prison upon completion of construction.

The Company does not control SACS or SACM, and records its proportional share (50%) of the operating results of each entity using the equity method.

The Company is currently evaluating the effects of the issuance of the Interpretation on the accounting for its ownership interests in SACS and SACM. If the Company were required to consolidate SACM beginning December 30, 2002, total assets and liabilities reported at June 29, 2003 would have increased approximately \$4.1 million and \$2.0 million, respectively. Revenues and operating expenses for the twenty-six weeks ended June 29, 2003 would have increased approximately \$5.9 million and \$4.3 million, respectively. If the Company were required to consolidate SACS beginning December 30, 2002, total assets and liabilities reported at June 29, 2003 would have increased approximately \$67.3 million and \$64.4 million, respectively. Revenues and operating expenses for the twenty-six weeks ended June 29, 2003 would have increased approximately \$11.6 million and \$8.0 million, respectively. The equity interests of the joint venture partners would have been reported as minority interest expense. There would have been no impact on the Company's net income as reported.

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**WACKENHUT CORRECTIONS CORPORATION**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(UNAUDITED)**

**2. ACCOUNTING FOR STOCK-BASED COMPENSATION**

In December 2002, the FASB issued SFAS No. 148, Accounting for Stock-Based Compensation Transition and Disclosure, an Amendment of FASB Statement No. 123. SFAS No. 148 amends FASB Statement No. 123, Accounting for Stock-Based Compensation, to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, SFAS No. 148 amends the disclosure requirements of Statements No. 123 and APB Opinion No. 28, Interim Financial Reporting to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. Currently, the Company accounts for stock option plans under the intrinsic value method APB Opinion No. 25. The Company does not intend to change its policy with regard to its method of accounting for stock based compensation and there was no impact on the Company's financial position, results of operations or cash flows upon adoption of SFAS No. 148.

No stock-based employee compensation cost is reflected in net income, as all options granted under the Company's plans had an exercise price equal to market value of the underlying common stock on the date of grant. Had the Company applied the fair value recognition provisions of FASB Statement No. 123 to all awards, the Company's net income and earnings per share would have been reduced to the pro forma amounts as follows:

| (In thousands, except per share data)  | Thirteen<br>Weeks<br>Ended<br>June 29,<br>2003 | Thirteen<br>Weeks<br>Ended<br>June 30,<br>2002 | Twenty-six<br>Weeks Ended<br>June 29, 2003 | Twenty-six<br>Weeks Ended<br>June 30, 2002 |
|--|--|--|--|--|
| <b>Net income:</b>   |  |  |  |  |
| As reported  | \$ 6,299                                       | \$ 5,405                                       | \$ 11,471                                  | \$ 10,588                                  |
| <b>Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects</b> |  |  |  |  |
|  | 323  | 26   | 396  | 933  |
| <b>Pro forma</b>   | 5,976  | 5,379  | 11,075                                     | 9,655                                      |
| <b>Basic earnings per share:</b>   |  |  |  |  |
| As reported  | \$ 0.30  | \$ 0.26  | \$ 0.54                                    | \$ 0.50                                    |
| <b>Pro forma</b>   | 0.28   | 0.26   | 0.52                                       | 0.46                                       |
| <b>Diluted earnings per share:</b>   |  |  |  |  |
| As reported  | \$ 0.29  | \$ 0.25  | \$ 0.54                                    | \$ 0.50                                    |
| <b>Pro forma</b>   | 0.28   | 0.25   | 0.52                                       | 0.45                                       |

For purposes of the pro forma calculations, the fair value of each option is estimated on the date of the grant using the Black-Scholes option-pricing model, assuming no expected dividends and the following assumptions:

|  | Stock options granted during<br>the<br>Thirteen and Twenty-six<br>Weeks ended |                  |
|--|---|------------------|
|  | June 29,<br>2003  | June 30,<br>2002 |
| <b>Expected volatility factor</b>          | <b>49%</b>  | <b>49%</b>       |
| <b>Approximate risk free interest rate</b> | <b>2.2%</b>   | <b>1.7%</b>      |
| <b>Expected lives (in years)</b>           | <b>4.4</b>  | <b>3</b>         |



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**WACKENHUT CORRECTIONS CORPORATION**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(UNAUDITED)**

**3. DOMESTIC AND INTERNATIONAL OPERATIONS**

A summary of domestic and international operations is presented below (in thousands):

|                         | <b>Thirteen Weeks Ended</b> |                      | <b>Twenty-six Weeks Ended</b> |                      |
|-------------------------|-----------------------------|----------------------|-------------------------------|----------------------|
|                         | <b>June 29, 2003</b>        | <b>June 30, 2002</b> | <b>June 29, 2003</b>          | <b>June 30, 2002</b> |
| <b>Revenues</b>         |                             |                      |                               |                      |
| U.S. operations         | \$ 122,323                  | \$ 113,452           | \$ 235,828                    | \$ 225,313           |
| Australia operations    | 30,884                      | 27,740               | 62,633                        | 56,061               |
|                         | <u>          </u>           | <u>          </u>    | <u>          </u>             | <u>          </u>    |
| Total revenues          | \$ 153,207                  | \$ 141,192           | \$ 298,461                    | \$ 281,374           |
|                         | <u>          </u>           | <u>          </u>    | <u>          </u>             | <u>          </u>    |
| <b>Operating Income</b> |                             |                      |                               |                      |
| U.S. operations         | \$ 9,460                    | \$ 7,198             | \$ 18,386                     | \$ 12,919            |
| Australia operations    | 486                         | 285                  | 1,266                         | 482                  |
|                         | <u>          </u>           | <u>          </u>    | <u>          </u>             | <u>          </u>    |
| Total operating income  | \$ 9,946                    | \$ 7,483             | \$ 19,652                     | \$ 13,401            |
|                         | <u>          </u>           | <u>          </u>    | <u>          </u>             | <u>          </u>    |

|                          | <b>As of</b>         |                          |
|--------------------------|----------------------|--------------------------|
|                          | <b>June 29, 2003</b> | <b>December 29, 2002</b> |
| <b>Long-lived Assets</b> |                      |                          |
| U.S. operations          | \$ 199,052           | \$ 200,258               |
| Australia operations     | 6,067                | 6,208                    |
|                          | <u>          </u>    | <u>          </u>        |
| Total long-lived assets  | \$ 205,119           | \$ 206,466               |
|                          | <u>          </u>    | <u>          </u>        |

Long-lived assets consist of property, plant and equipment.

The Company formerly had an affiliate (50% or less owned) that provided correctional detention facilities management, home monitoring and court escort services in the United Kingdom. On July 2, 2003, the Company completed the sale of its UK joint venture interest to Serco Investments Limited ( Serco ) at a price of approximately \$80 million, as determined by a panel of valuation experts. The Company will recognize a gain, net of tax, during the third quarter of approximately \$32 million. The following table summarizes certain financial information pertaining to this unconsolidated foreign affiliate (in thousands):

|  | <b>Twenty-six Weeks Ended</b> |                      |
|--|-------------------------------|----------------------|
|  | <b>June 29, 2003</b>          | <b>June 30, 2002</b> |
|  | <u>          </u>             | <u>          </u>    |

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| <b>Statement of Operations Data</b> |            |           |
|-------------------------------------|------------|-----------|
| Revenues                            | \$ 114,852 | \$ 77,284 |
| Operating income                    | 7,791      | 8,178     |
| Net income                          | 3,486      | 8,511     |
| <b>Balance Sheet Data</b>           |            |           |
| Current assets                      | \$ 89,550  | \$ 91,300 |
| Noncurrent assets                   | 311,674    | 293,609   |
| Current liabilities                 | 55,618     | 42,273    |
| Noncurrent liabilities              | 346,041    | 337,918   |
| Stockholders' (deficit) equity      | (435)      | 4,718     |

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**WACKENHUT CORRECTIONS CORPORATION**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(UNAUDITED)**

**3. DOMESTIC AND INTERNATIONAL OPERATIONS (CONTINUED)**

The Company's former equity affiliate in the United Kingdom had entered into interest rate swaps to fix the interest rate which it received on its variable rate credit facility. Management of the Company had determined the swaps to be effective cash flow hedges. Accordingly, the Company recorded its share of the affiliates' change in other comprehensive income. The swaps fair value approximated \$12.4 million, net of tax, and \$11.9 million, net of tax, at June 29, 2003 and December 29, 2002, respectively, and are reflected as a component of other comprehensive loss in the Company's financial statements.

In February 2002, the Company's 50% owned foreign affiliates in South Africa opened a 3,024-bed maximum security correctional facility. The following table summarizes certain financial information pertaining to these unconsolidated foreign affiliates, on a combined basis (in thousands):

|                                     | <b>Twenty-six Weeks Ended</b> |                      |
|-------------------------------------|-------------------------------|----------------------|
|                                     | <b>June 29, 2003</b>          | <b>June 30, 2002</b> |
| <b>Statement of Operations Data</b> |                               |                      |
| Revenues                            | \$ 17,445                     | \$ 4,328             |
| Operating income (loss)             | 5,126                         | (2,307)              |
| Net income (loss)                   | 630                           | (2,071)              |
| <b>Balance Sheet Data</b>           |                               |                      |
| Current assets                      | \$ 10,955                     | \$ 3,493             |
| Noncurrent assets                   | 55,475                        | 41,146               |
| Current liabilities                 | 4,330                         | 1,676                |
| Noncurrent liabilities              | 62,107                        | 42,381               |
| Stockholders' (deficit) equity      | (7)                           | 582                  |

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**WACKENHUT CORRECTIONS CORPORATION**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(UNAUDITED)**

**4. COMPREHENSIVE INCOME**

The components of the Company's comprehensive income, net of tax, are as follows (in thousands):

|  | <b>Thirteen Weeks Ended</b> |                      | <b>Twenty-six Weeks Ended</b> |                      |
|--|-----------------------------|----------------------|-------------------------------|----------------------|
|  | <b>June 29, 2003</b>        | <b>June 30, 2002</b> | <b>June 29, 2003</b>          | <b>June 30, 2002</b> |
| Net income   | \$ 6,299                    | \$ 5,405             | \$ 11,471                     | \$ 10,588            |
| Change in foreign currency translation, net of income tax expense of \$2,591, \$1,134, \$3,999 and \$1,920, respectively | 4,053                       | 1,773                | 6,255                         | 3,003                |
| Minimum pension liability adjustment, net of income tax expense of \$55, \$ , \$120, \$ , respectively                   | 86                          |                      | 187                           |                      |
| Unrealized loss on derivative instruments, net of income tax benefit of \$760, \$2,370, \$1,009, \$2,062, respectively   | (1,188)                     | (3,705)              | (1,578)                       | (3,223)              |
| Comprehensive income   | \$ 9,250                    | \$ 3,473             | \$ 16,335                     | \$ 10,368            |



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**WACKENHUT CORRECTIONS CORPORATION**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(UNAUDITED)**

**5. EARNINGS PER SHARE**

The following table shows the amounts used in computing earnings per share (EPS) in accordance with Statement of Financial Accounting Standards No. 128, Earnings Per Share and the effects on income and the weighted average number of shares of potential dilutive common stock (in thousands except per share data):

|   | <b>Thirteen Weeks Ended</b> |                          | <b>Twenty-six Weeks Ended</b> |                      |
|---|-----------------------------|--------------------------|-------------------------------|----------------------|
|   | <b>June 29,<br/>2003</b>    | <b>June 30,<br/>2002</b> | <b>June 29, 2003</b>          | <b>June 30, 2002</b> |
| Net Income                                | \$ 6,299                    | \$ 5,405                 | \$ 11,471                     | \$ 10,588            |
| Basic earnings per share:                 |                             |                          |                               |                      |
| Weighted average shares outstanding       | 21,274                      | 21,128                   | 21,260                        | 21,052               |
| Per share amount                          | \$ 0.30                     | \$ 0.26                  | \$ 0.54                       | \$ 0.50              |
| Diluted earnings per share:               |                             |                          |                               |                      |
| Weighted average shares outstanding       | 21,274                      | 21,128                   | 21,260                        | 21,052               |
| Effect of dilutive securities:            |                             |                          |                               |                      |
| Employee and director stock options       | 138                         | 225                      | 108                           | 262                  |
| Weighted average shares assuming dilution | 21,412                      | 21,353                   | 21,368                        | 21,314               |
| Per share amount                          | \$ 0.29                     | \$ 0.25                  | \$ 0.54                       | \$ 0.50              |

**Thirteen Weeks**

Options to purchase 996,600 shares of the Company's common stock, with exercise prices ranging from \$13.75 to \$26.88 per share and expiration dates between 2005 and 2013, were outstanding at the thirteen weeks ended June 29, 2003, but were not included in the computation of diluted EPS because their effect would be anti-dilutive. At the thirteen weeks ended June 30, 2002, options to purchase 805,600 shares of the Company's common stock, with exercise prices ranging from \$15.40 to \$26.88 and expiration dates between 2006 and 2012, were outstanding and also excluded from the computation of diluted EPS because their effect would be anti-dilutive.

**Twenty-six Weeks**

Options to purchase 1,071,600 shares of the Company's common stock, with exercise prices ranging from \$11.88 to \$26.88 per share and expiration dates between 2005 and 2013, were outstanding at the twenty-six weeks ended June 29, 2003, but were not included in the computation of diluted EPS because their effect would be anti-dilutive. At the twenty-six weeks ended June 30, 2002, options to purchase 805,600 shares of the Company's common stock, with exercise prices ranging from \$15.40 to \$26.88 and expiration dates between 2006 and 2012, were outstanding and also excluded from the computation of diluted EPS because their effect would be anti-dilutive.

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**WACKENHUT CORRECTIONS CORPORATION  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(UNAUDITED)**

**6. SHARE REPURCHASE FROM GROUP 4 FALCK A/S**

On July 9, 2003, the Company repurchased all 12 million shares of the Company's common stock, par value \$0.01 (the "Common Stock"), beneficially owned by Group 4 Falck A/S ("Group 4 Falck"), the Company's former 57% majority shareholder, for \$132 million in cash pursuant to the terms of a Share Purchase Agreement (the "Share Purchase Agreement"), dated April 30, 2003, by and among the Company, Group 4 Falck, The Wackenhut Corporation, the Company's former parent company ("TWC") and Tuhneckaw, Inc., an indirect wholly-owned subsidiary of Group 4 Falck ("Tuhneckaw") (the "Transaction").

The Transaction was negotiated by a special committee comprised of independent members of the Company's board of directors and approved by the independent directors on the Company's board. The special committee retained independent legal and financial advisors to assist it in the evaluation of the Transaction. The special committee received a fairness opinion from Legg Mason, its independent financial advisor, stating that the consideration being paid in connection with the Transaction was fair from a financial point of view to the shareholders of the Company other than Group 4 Falck and its affiliates.

Under the terms of the Share Purchase Agreement, Group 4 Falck, TWC and Tuhneckaw cannot, and cannot permit any of their subsidiaries to, acquire beneficial ownership of any voting securities of the Company during a one-year standstill period following the closing of the Transaction. Immediately following the completion of the Transaction, the Company had 9,299,252 million shares of Common Stock issued and outstanding.

Upon closing of the Transaction, an agreement dated March 7, 2002 by and among the Company, Group 4 Falck and TWC, which governed certain aspects of the parties' relationship, was terminated and the two Group 4 Falck representatives serving on the Company's board of directors resigned. Also terminated upon the closing of the Transaction was a March 7, 2002 agreement between the Company and Group 4 Falck wherein Group 4 Falck agreed to reimburse the Company for up to 10% of the fair market value of the Company's interest in its UK joint venture in the event the Company was required to sell its interest in the joint venture to its partner, Serco.

In addition, the Services Agreement (the "Services Agreement"), dated October 28, 2002, between the Company and TWC, will be terminated effective December 31, 2003, and no further payments for periods thereafter will be due from the Company to Group 4 Falck under the Services Agreement. Pursuant to the Services Agreement, Group 4 Falck was scheduled to provide the Company with information systems related services through December 31, 2004. The Company will handle those services internally beginning January 1, 2004.

The sublease between TWC, as sublessor, and the Company, as sublessee, also terminated ten days after closing of the Transaction. The sublease, which covered the Company's former corporate headquarters, was set to expire in 2011. The Company relocated its corporate headquarters to Boca Raton, Florida on April 14, 2003.

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**WACKENHUT CORRECTIONS CORPORATION  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(UNAUDITED)**

**7. LONG-TERM DEBT**

To facilitate the completion of the Transaction in July 2003, the Company amended its senior secured credit facility and issued \$150 million, aggregate principal amount, ten-year, 8 1/4% Senior Unsecured Notes (the "Notes") in a private offering to qualified institutional buyers under Rule 144A of the Securities Act.

The Amended Senior Secured Credit Facility (the "Amended Senior Credit Facility") consists of a \$50 million, 5-year revolving loan (the "Revolving Credit Facility") and a \$100 million, 6-year term loan (the "Term Loan Facility").

The Revolving Credit Facility contains a \$40 million limit for the issuance of standby letters of credit. At July 9, 2003, \$100 million was outstanding under the Term Loan Facility, there were no borrowings under the Revolving Credit Facility, and there was \$25.4 million outstanding letters of credit.

Indebtedness under the Revolving Credit Facility bears interest at the Company's option at the base rate (defined as the higher of the prime rate or federal funds plus 0.5%) plus a spread of 125 to 200 basis points or LIBOR plus 250 to 325 basis points, depending on the leverage ratio. Indebtedness under the Term Loan Facility bears interest at LIBOR + 300 basis points.

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

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

The Notes are general, unsecured, senior obligations of the Company. Interest is payable semi-annually on January 15 and July 15 at 8.25%, beginning on January 15, 2004. The Notes are governed by the terms of an Indenture, dated July 9, 2003, between the Company and the Bank of New York, as trustee (the "Indenture").

Under the terms of the Indenture, at any time on or prior to July 15, 2006, the Company may redeem up to 35% of the Notes with the proceeds from equity offerings at 108.25% of the principal amount to be redeemed plus the payment of accrued and unpaid interest, and any applicable liquidated damages. Additionally, after July 15, 2008, the Company may redeem, at its option, all or a portion of the Notes plus accrued and unpaid interest at various redemption prices ranging from 104.125% to 100.000% of the principal amount to be redeemed, depending on when the redemption occurs.

The Indenture contains covenants that limit the Company's ability to incur additional indebtedness, pay dividends or distributions on its Common Stock, repurchase its Common Stock, or prepay subordinated indebtedness. The Indenture also limits the Company's ability to issue preferred stock, make certain investments, make certain types of investments, merge or consolidate with another company, guarantee other indebtedness, create liens and transfer and sell assets.

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**WACKENHUT CORRECTIONS CORPORATION  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(UNAUDITED)**

**7. LONG-TERM DEBT (CONTINUED)**

The Company has filed a registration statement on Form S-4 (the Registration Statement) to register under the Securities Act exchange notes (the Exchange Notes) having substantially identical terms as the Notes. Currently, the Notes are primarily tradeable only pursuant to Rule 144A of the Securities Act. Upon the effectiveness of the Registration Statement under the Securities Act, the Company will commence an exchange offer in which holders of the Notes will be able to exchange the Notes for Exchange Notes which will generally be freely tradeable, subject to certain exceptions.

At June 29, 2003, the Company had outstanding eleven letters of guarantee totaling approximately \$6.4 million under separate international facilities.

The Company's wholly-owned Australian subsidiary financed the development of a facility with long-term debt obligations, which are non-recourse to the Company. The term of the non-recourse debt is through 2017 and the debt bears interest at a variable rate quoted by certain Australian banks plus 140 basis points. Any obligations or liabilities of the subsidiary are matched by a similar or corresponding commitment from the government of the State of Victoria. In connection with the non-recourse debt, the subsidiary is a party to an interest rate swap agreement to fix the interest rate on the variable rate non-recourse debt at 9.7%. The swap is recorded in the Company's condensed consolidated financial statements as an effective cash flow hedge and the Company records changes in the value of the swap as a component of other comprehensive income in the condensed consolidated financial statements, net of applicable income taxes. The total value of the swap liability as of June 29, 2003 and December 29, 2002 was \$5.9 million and \$5.6 million, respectively and is recorded as a component of other liabilities in the accompanying condensed consolidated financial statements.

**8. COMMITMENTS AND CONTINGENCIES**

*CONTRACTS*

The Company's contract with the California Department of Corrections for the management of the 224-bed McFarland Community Corrections Center was recently extended through December 31, 2003. Management believes that a contract extension will be entered into for any services which we may provide after December 31, 2003. However, there can be no assurance that a contract extension will be finalized. If the contract is not extended, the Company may not be reimbursed for any of its fees related to the operation of the McFarland facility after December 31, 2003. During the twenty-six weeks ended June 29, 2003, the contract for the McFarland facility represented less than 1% of the Company's consolidated revenues. In addition, the McFarland facility is currently in the fifth year of a ten-year non-cancelable operating lease with Correctional Properties Trust, referred to as CPV. In the event that the Company is unable to extend the McFarland contract beyond December 31, 2003 or find an alternative use for the McFarland facility, the Company may be required to record an operating charge related to a portion of the future lease costs with CPV in accordance with SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities. The remaining lease obligation is approximately \$5.0 million through April 28, 2008.

During 2000, the Company's management contract at the 276-bed Jena Juvenile Justice Center in Jena, Louisiana (the Facility) was terminated by the mutual agreement of the parties. The Company incurred an operating charge of \$1.1 million during fiscal 2002, related to the Company's lease of the inactive Facility. The Company is continuing its efforts to find an alternative correctional use or sublease for the Facility and believes that it will be successful prior to early 2004. The Company has reserved for the lease payments through early 2004 and management believes the reserve balance currently established for anticipated future losses under the lease with CPV is sufficient to cover costs under the lease until a sublease is in place or an alternative future use is established. There can, however, be no assurance that the Company will be successful in its efforts to lease or find an alternative use for the facility prior to early 2004. If the Company is unable to sublease or find an alternative correctional use for the Facility by early 2004, an additional operating charge will be required in accordance with Emerging Issues Task Force Issue No. 94-3, Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity. The remaining obligation on the Facility lease through the contractual term of 2008, exclusive of the reserve losses through early 2004, is approximately \$11 million.

In Australia, the Department of Immigration, Multicultural and Indigenous Affairs (DIMIA) announced its intention to enter into contract negotiations with a division of Group 4 Falck for the management and operation of Australia's immigration centers, services which the Company has provided since 1997 through its Australian subsidiary. DIMIA has further stated that if it is unable to reach agreement with the announced

preferred bidder, it may enter into negotiations with our Australian subsidiary. The Company is continuing to operate the centers under its current contract, which was to expire on or before June 23, 2003 but was extended through December 23, 2003, unless terminated earlier if DIMIA and the division of Group 4 Falck finalize an agreement before then. The contract may also be further extended by the government if negotiations are not completed with the successful tenderer. During the twenty-six weeks ended June 29, 2003, the contract with DIMIA represented approximately 10% of the Company's revenue.

## Legal

The Company is defending a wage and hour lawsuit filed in California state court by ten current and former employees. The employees are seeking certification of a class, which would encompass all current and former California employees of the Company. Discovery is underway and the court has yet to hear the plaintiffs' certification motion. The Company is unable to estimate the potential loss exposure due to the current procedural posture of the lawsuit. While the plaintiffs in this case have not quantified their claim of damages and the outcome of the matters discussed above cannot be predicted with certainty, based on information known to date, management believes that the ultimate resolution of these matters, if settled unfavorably to the Company, could have a material adverse effect on the Company's financial position, operating results and cash flows. The Company is vigorously defending its rights in this action.

The nature of the Company's business exposes the Company to various types of claims or litigation against it, including, but not limited to, civil rights claims relating to conditions of confinement and/or mistreatment, sexual misconduct claims brought by prisoners or detainees, medical malpractice claims, claims relating to employment matters (including, but not limited to, employment discrimination claims, union grievances and wage and hour claims), property loss claims, environmental claims, automobile liability claims, contractual claims and claims for personal injury or other damages resulting from contact with the Company's facilities, programs, personnel or prisoners, including damages arising from a prisoner's escape or from a disturbance or riot at a facility. Except for such litigation incidental to the Company's business, and the matter set forth above, there are no pending material legal proceedings to which the Company or any of its subsidiaries is a party or to which the Company's or any of its subsidiaries' property or assets are subject.

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**WACKENHUT CORRECTIONS CORPORATION  
PART II OTHER INFORMATION**

**ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K**

(a) Exhibits

- 31.1 SECTION 302 CEO Certification
- 31.2 SECTION 302 CFO Certification
- 32.1 SECTION 906 CEO Certification
- 32.2 SECTION 906 CFO Certification

(b) Reports on Form 8-K The Company filed a Form 8-K, Items 5, 7 and 9 on May 8, 2003.

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**WACKENHUT CORRECTIONS CORPORATION**

**SIGNATURES**

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

WACKENHUT CORRECTIONS CORPORATION

November 10, 2003

/s/ John G. O Rourke

\_\_\_\_\_  
Date

\_\_\_\_\_  
John G. O Rourke  
Senior Vice President Finance and Chief Financial Officer  
(Principal Financial Officer)