2002 ANNUAL REPORT

WACKENHUT CORRECTIONS

The GEO Group, Inc.

The GEO Group has restated its financial statements for the fiscal years 2002, 2003 and 2004. As a result, the financial information contained in this Annual Report for those years may not be relied upon.

The restated financial statements as filed with the Securities and Exchange Commission on August 17, 2005 on Form 10-K/A can be found under the SEC Filings Section of The GEO Group's Investor Relations webpage at www.thegeogroupinc.com, or at the Securities and Exchange Commission's website at www.sec.gov.

COMPANY PROFILE

Wackenhut Corrections Corporation (WCC) is a world leader in government-outsourced correctional management, medical and mental health rehabilitation services and other diversified services, with a 27 percent worldwide market share. In addition, WCC is the largest private detention and immigration services provider in the world.

Through its team of approximately 11,000 professionals, WCC develops and implements tailored business solutions that meet the diverse needs of government agencies around the globe.

WCC provides:

- Innovative, turnkey programs for the design, construction, financing and management of state-of-the-art correctional and detention centers;
- Development and management of medical and mental health rehabilitation facilities including those focused on education, substance abuse treatment, counseling, work programs and community corrections services; and
- A range of diversified detention services such as electronic monitoring for home detention, prisoner transport and facility maintenance.

At year-end 2002, WCC managed 59 contracts and awards representing 69 facilities worldwide. WCC currently holds a 21 percent share of the U.S. private correctional market and a 55 percent share of the international private correctional market. Under these agreements, WCC manages approximately 39,000 offender beds in North America, Australia, the United Kingdom, New Zealand and South Africa, while also providing a range of additional correctional-related services such as prisoner transport and electronic monitoring.

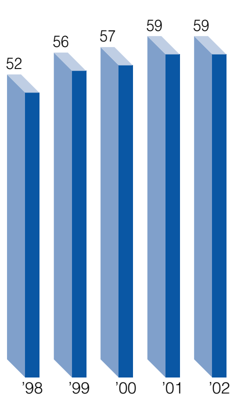
WCC became a publicly traded company in 1994 and is listed on the New York Stock Exchange under the ticker symbol “WHC.” For more information on Wackenhut Corrections Corporation, please visit the Company’s web site at **www.wcc-corrections.com**.

Table of Contents

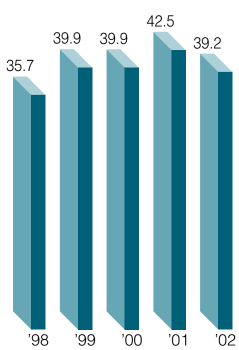
FINANCIAL HIGHLIGHTS

(In thousands, except per share data)	2002	2001	2000	1999	1998
Total Revenues	$568,612	$562,073	$535,557	$438,484	$312,759
Income Before Income Taxes, Equity in Earnings of Affiliates and Change in Accounting Principle	$ 28,933	$ 24,865	$ 20,856	$ 31,103	$ 24,911
Income Before Cumulative Effect of Change in Accounting Principle	$ 21,501	$ 19,379	$ 16,994	$ 21,940	$ 16,828
Cumulative Effect of Change in Accounting Principle	$ —	$ —	$ —	$ —	$ (11,528)
Net Income	$ 21,501	$ 19,379	$ 16,994	$ 21,940	$ 5,300
Diluted Earnings Per Share	$ 1.01	$ 0.91	$ 0.80	$ 1.00	$ 0.23
Working Capital	$ 64,589	$ 67,887	$ 56,001	$ 79,377	$ 66,319
Total Assets	$402,658	$242,023	$223,571	$204,425	$148,008
Shareholders' Equity	$152,642	$130,361	$127,164	$118,684	$102,940
Diluted Weighted Average Common Shares Outstanding	21,364	21,261	21,251	22,015	22,683

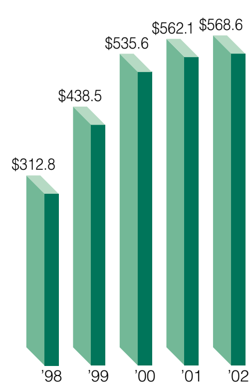
Facility Contracts



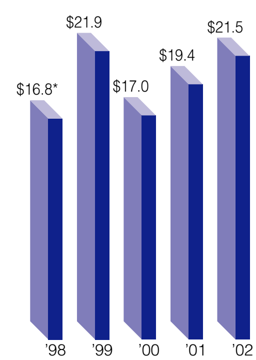
Beds Under Contract/Award
(in thousands)



Revenue
(in millions)



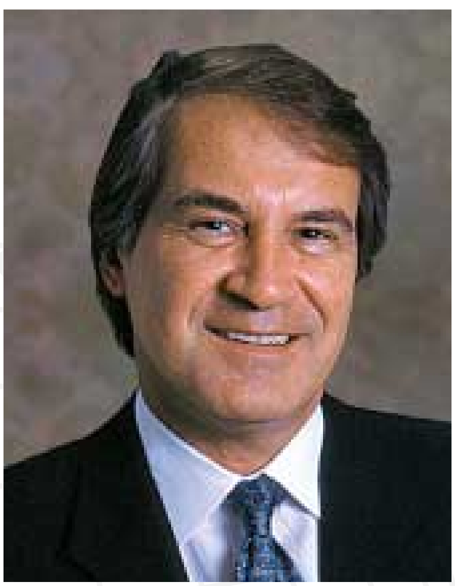
Net Income
(in millions)



*Total Net Income shown is before the cumulative effect of change in accounting principle of ($11.5) million after tax for 1998.

CHAIRMAN'S LETTER TO SHAREHOLDERS

growth



George C. Zoley
Chairman of the Board and
Chief Executive Officer

Two thousand and two was a landmark year during which Wackenhut Corrections Corporation (WCC) set out on a course of growth and renewal. Over the years, we have become a leader of the global privatized correctional market. Today, we are approaching our 20th year of providing high-quality, cost-effective services in each of our principal businesses: North American Correctional Services, International Correctional Services and Diversified Services.

Our 2002 results reflect WCC's best earnings per share (EPS) in our history. Our 2002 EPS rose to $1.01 or $21.5 million, compared with $0.91 or $19.4 million in 2001. Revenue increased to $568.6 million, compared with $562.1 million in 2001. Our 2002 revenue increase reflects the results of a full year of operations at WCC's two new facilities in North Carolina and Texas, offset by lower construction revenue. Contributions from operations in 2002 increased 24 percent to $60 million from $48.6 million in 2001. This significant increase is due to the renegotiation of certain contracts in the U.S., the activation of our two new U.S. facilities, significantly improved financial performance at a number of existing facilities, annual contract cost-of-living adjustments and a decline in operating expenses.

Our 2002 results reflect WCC's best earnings per share in our history.

Key Achievements and Challenges

In December 2002, WCC successfully completed a $175 million senior secured revolver/term credit facility consisting of a $50 million five-year revolving credit facility and a $125 million six-year amortizing term loan. The new facility replaces our $30 million revolving credit facility and our $154.3 million operating lease facility. The proceeds of the term loan were used to purchase the four operating properties under WCC's operating lease facility. This new credit facility will provide us with liquidity to pursue our immediate and future growth objectives.

Moody's and Standard and Poor's (S&P) have rated the facility Ba3/BB, respectively. In addition, we obtained issuer ratings of B1/BB- from Moody's and S&P, respectively. We are proud of these credit ratings, which are the highest in the offender management industry and reflect our historically strong financial performance, solid growth potential and the expertise of our senior management team. The strong ratings were also influenced by our 97 percent occupancy rate, diversified contracts and pragmatic business model that focuses on managing rather than owning facilities, thereby reducing WCC's capital investment exposure.

The defining event of 2002 was the acquisition of our parent company, The Wackenhut Corporation (TWC), by the Denmark-based Group 4 Falck, one of the largest security services providers in the world. The TWC acquisition has created a multitude of opportunities for strong renewal and growth. Group 4 Falck, which is now the indirect owner of approximately 56 percent of WCC's common shares, has said that it intends to dispose of its interest in WCC in order to focus on its core business, the provision of security services. The consequences of this potential disposition and our role in its implementation will be a significant challenge for us in 2003.

To help drive our post-acquisition strategy, we appointed a distinguished new board of directors in 2002. I was honored to be elected the board's Chairman, a position that I fulfill in addition to my role as Chief Executive Officer of WCC. Wayne Calabrese, WCC's President and Chief Operating Officer, was elected Vice Chairman of the board. Our other board colleagues include two Group 4 Falck representatives, Lars Nørby Johansen and Søren Lundsberg-Nielsen; and five independent board members: Norman A. Carlson, Benjamin R. Civiletti, G. Fred DiBona, Anne N. Foreman and Richard H. Glanton. At the same time, we bid farewell to several other esteemed board members, including our founder George R. Wackenhut. George was a true visionary

We are a growing enterprise composed of dedicated professionals armed with the entrepreneurial spirit, experience and skills necessary to achieve new success levels.

who was not only instrumental in the establishment of Wackenhut Corrections Corporation in 1984, but in the creation of an entire new industry. We thank him for his invaluable guidance and insight, and we wish him well in his retirement.

As a result of Group 4 Falck's acquisition of TWC, two issues arose in the U.K. in 2002 that required our close attention. We were able to finalize one issue, while the other is still pending resolution.

First, the Office of Fair Trade in the U.K. asked the Competition Commission to determine whether Group 4 Falck's acquisition of TWC could impact competition in the private custodial industry in the U.K., given the fact that Group 4 Falck already has a U.K.-based private prison subsidiary, Global Solutions Ltd. The Competition Commission completed its investigation and approved the merger without condition in its October 2002 report.

Second, Serco Investments Limited, our U.K. joint venture partner in Premier Custodial Group Limited, alleged that as a result of the TWC acquisition, it has a right to acquire WCC's 50 percent interest in the U.K. joint venture. Serco has given notice that it plans to exercise this alleged right. We contend that Serco does not have this right, and we have filed a declaratory judgment suit in the U.K. to determine our rights under the joint venture agreement with Serco. The case is currently scheduled for trial in May 2003.

A Significant Move Forward

Since our inception in 1984, we have shared corporate offices with TWC, as well as common resources. Over the past five years, WCC has been moving toward self-sufficiency. During 2002, we established new insurance programs separate and apart from the shared services arrangement with our former parent company. We anticipate these new programs will create substantial annual savings.

The most significant break with the past, however, will occur in the spring of 2003, when TWC and WCC will separate physically. WCC will relocate our new global headquarters to Boca Raton, Florida. Our physical relocation will drive even more initiatives that will serve to launch WCC into a new era of revitalization and growth.

A Strong Presence in North America

In 2002, WCC continued to move aggressively to identify contract facilities that were not meeting our financial expectations and to remedy those problem areas. WCC also scored an important new contract win in 2003, the contract to design, construct and manage a 500-bed Pre-Parole and Parole Revocation Center in Pueblo, Colorado.

WCC also continued to build our detention services business in 2002 with the award of an Immigration and Naturalization Service (INS) contract in South Florida for 150 female detainees.

renewal

Seizing Global Opportunities

On the international front, we expect to capitalize on rapid growth in the detention and prison businesses—growth that could result in the creation of as many as 8,000 new beds worldwide over the next 12 to 18 months. For example, the influx of illegal aliens in the U.K. has created significant opportunities for new contracts in the near term. During 2002, we submitted a bid for the design, construction and management of Logford House, a new 326-bed immigration and detention center in Harmondsworth, Middlesex. On February 6, 2003, our U.K. subsidiary, Premier Detention Services Ltd., announced the signing of the Logford House contract for an eight-year term. What's more, we expect the U.K. government to seek proposal requests in 2003 for up to eight new immigration centers containing more than 3,000 beds—a process in which we fully expect to participate. We are also gearing up to enter the procurement process for as many as five new prisons in the near future.

Perhaps nowhere is our prison expertise better illustrated than in the recent activation of the world's largest prison, a 3,024-bed facility in Louis Trichardt, South Africa. In respect to this prison, WCC received an 'A+' grade from a comparative study conducted by a South African government task team charged with evaluating private and public prisons.

Our diversified services business, which includes the provision of healthcare and mental health services, special needs population services, home detention electronic monitoring and prisoner transport services, is also in a growth phase. We are bidding on the provision of healthcare services at multiple facilities in Australia.

A Future Marked By Growth And Renewal

We see public-private partnerships continuing to expand in size and significance as governments increasingly come to rely on the ability of the private sector to implement public policy directives quickly and effectively.

Inmate populations in privately operated prisons increased by five percent during 2001. We fully expect these figures to increase as crime rates rise, budgets shrink and the design of our homeland defense systems and strategies take shape.

Growth and renewal is in full swing at WCC, in our nation and in our world. We are entering a bright future as a growing enterprise composed of dedicated professionals armed with the entrepreneurial spirit, experience and skills necessary to achieve new levels of success. We move forward into 2003 well positioned to maximize our Company's potential on behalf of our clients, employees and shareholders.

George C. Zoley
Chairman of the Board and
Chief Executive Officer

innovative

On the development side, WCC can cut costs between 20–30 percent, innovate design, shorten completion time and eliminate client risk through fixed-price contracts.

- Since 1995, the total number of offenders held in state or federal prisons or in local jails has risen from approximately 1.6 million to nearly 2 million at the beginning of 2002.
- WCC leads the industry in the utilization of assets and has an impressive occupancy rate of 97 percent.
- Inmate populations in privately operated prisons increased by five percent during 2001.

Rising national crime rates are having a tremendous impact on the growth of the privatized correctional industry in the U.S. Recent statistics indicate a resurgence in the number of offenses, a trend that, coupled with tightening government budgets, is expected to result in renewed building and management contract opportunities for the private sector.

Since 1995, the total number of offenders held in state or federal prisons or in local jails has risen from approximately 1.6 million to nearly 2 million at the beginning of 2002, an average annual increase of about 3.6 percent.

As each year passes, the American people and government agencies across the U.S. are becoming increasingly comfortable with the concept of the private sector providing professional and comprehensive corrections and health services.

In the early days of the industry there were many skeptics, but WCC has been at the forefront of delivering service excellence that has been instrumental in gaining acceptance for public-private partnerships. Today, we are recognized for our ability to offer new insight and innovative approaches to systemic problems such as shrinking budgets, overcrowded facilities, aging offender populations and inefficient infrastructure.

On the development side, as compared with the public sector agencies, WCC can cut costs between 20 and 30 percent, spearhead design innovation, shorten completion time and eliminate client risk through fixed-price contracts. As managers, WCC is generally 10 percent

Central control room at Guadalupe Correctional Facility in Santa Rosa, New Mexico (top photo).

South Florida State Hospital under construction. The facility is a 350-bed special-needs state psychiatric hospital, located in Fort Lauderdale, Florida (bottom photo).

efficient

As a manager, WCC is more cost efficient, is more experienced in delivering specialized programs, and is primed for rapid response to immediate capacity needs.

more cost efficient, more experienced in delivering specialized programs and primed for rapid response to immediate capacity needs. In every aspect of WCC's participation in the public-private partnership, we strive to ensure client satisfaction by applying our deep and broad industry experience and sophisticated risk management knowledge.

There is a growing perception among those associated with corrections in the U.S. that the private sector offers significant opportunities for cost savings without sacrificing the safety, security or professional standards required to operate jails, prisons or detention facilities. At the beginning of 2002, private facilities held just under seven percent of all state and federal prisoners. This percentage, however, is on the upswing, and market analysts project that the inmate population under private management will rise to 14.2 percent by 2009.

In the meantime, WCC continued to operate in 2002 at the level of professional excellence that is the Company's hallmark. We lead the industry in the utilization of assets, and we have achieved an occupancy rate that remains at an impressive 97 percent.

A key development has been the maturation of the Company's regional office structure. WCC's three regions cover virtually the entire country:

- The Eastern Region, headquartered at our corporate facilities in South Florida, has nearly 11,000 beds in eight states;

- The Central Region, headquartered in New Braunfels, Texas, has more than 9,000 beds in two states (primarily Texas); and
- The Western Region, headquartered in Carlsbad, California, has nearly 7,000 beds in three states.

Each of these regional offices is led by a Regional Vice President, who, in turn, oversees a team of regional directors and managers of Security, Health Care, Training, Contract Compliance, Business Management, Food Service and Risk Management. Each office represents a significant investment of more than $1 million to ensure that appropriate support and oversight of our facility operations is given top priority, and to enhance communication and responsiveness to clients.

Our recruitment of highly experienced, talented personnel to key positions at both the regional executive level and the facility management level has paid substantial dividends to our organization. Through their skilled oversight, we have enhanced control of our expenses, decreased staff turnover and streamlined operations.

The structure has also improved our relationships with our clients, easing the way to address mutual day-to-day and long-term challenges in an efficient and effective manner. With the enhancement of the organizational structure of our regional office operations, WCC is extremely well positioned to seek and seize additional growth opportunities.

The full ramifications of the terrorist attacks of September 11, 2001 are still unclear, although we believe they will ultimately have a significant impact on our industry in general and WCC in particular. We continue to believe there will be substantial future federal opportunities for WCC as the government completes its strategic plans to reorganize the INS, unveils its national strategy for Homeland Security and completes the organization of the newly established Office of the Federal Detention Trustee.

The initiation of the 108th U.S. Congress's new Homeland Security Bill provides these agencies with greater flexibility in their efforts to procure detention beds and services, signaling that an easier, faster procurement process should soon be established to replace the current 12 to 18 month process.

Moreover, we believe that the government will tighten its security regarding illegal residents. New initiatives in this area will require secure facilities for a group composed of several thousand illegal immigrants, thereby driving a need to outsource key detention operations to companies such as ours. WCC's first detention contract was for the

capable

WCC has demonstrated strong capabilities by capturing a 21 percent market share of the North American privatized corrections market.

Aurora INS Processing Center in 1986, followed closely by a 200-bed INS detention facility in Queens, New York. Our long experience in detention services positions us well to meet government requirements in this area. WCC expanded our detention services business in 2002 with the award of an INS contract in Broward County, Florida for 150 female detainees.

The economy is also an important driver of the privatized corrections industry, but in a counter-cyclical manner. As the economy stalls—as it did in 2002—unemployment and offender populations rise, particularly at the federal level where industry experts forecast a 50 percent growth in capacity by 2006. Over the longer term, industry experts project a 10 percent increase in the U.S. inmate population to 2.9 million adult offenders by 2009.

We expect to face a number of challenges in 2003, but we also look forward to tremendous access to many new opportunities. In fact, we believe that 2003 will be an exciting year for WCC. We have demonstrated our strong capabilities and competence by capturing a 21 percent market share of the privatized corrections market in North America.

Prison Industries Enhancement (PIE) Program at the Lockhart Secure Work Program Facilities in Lockhart, Texas.

As we advance into 2003, WCC has projects of approximately 3,000 beds that are pending awards. In addition, over the next 12 to 18 months we plan to submit bids for an estimated 17,000 additional revenue-generating offender beds.

We can assure our shareholders that in the coming months we will apply all of our discipline, experience, talent and skills toward achieving even greater market presence and profitability.

Correctional officers on patrol at Fulham Correctional Centre, a 750-bed adult medium security facility located in Junee, New South Wales, Australia (top photo).

Aerial photo of WCC's 3,024-bed Kutama-Sinthumule Maximum Security Prison, located in South Africa's northern province of Louis Trichardt.

value-added

WCC adds value in relation to construction and operating costs, empowerment benefits, and the delivery of secure facilities, quality services and rehabilitation.

- The opening of the Kutama Sinthumule Maximum Security Prison in South Africa was a highlight of WCC's International Services in 2002.
- WCC has a 70 percent share of Australia's privatized corrections and detention market.
- The U.K. government requires that all new correctional centers be designed, constructed, managed and financed by the private sector.

A Major Success in South Africa

A highlight on WCC's international front was the successful activation of the largest private prison in the world. Our South African joint venture, South African Custodial Services (SACS), completed construction and opened the Kutama Sinthumule Maximum Security Prison on schedule and within budget. The 3,024-bed facility in South Africa's northern province of Louis Trichardt is WCC's largest corrections facility worldwide, and its opening was the most significant event in our International Services in 2002.

WCC's ability to design, finance, build and open a prison 18 months from the date we signed the contract was a significant achievement. Furthermore, the South African government formed a task team to analyze the costs of the nation's public prisons compared with private facilities. The report *(Review Of The Public Private Partnership Prison Contracts, November 2002)* concluded that the public-private partnership provided real value in relation to construction and operating costs, empowerment benefits, and the delivery of secure facilities, quality services and rehabilitation.

As a result of the successful prison opening and the positive report, WCC will play a key role in South Africa's future outsourcing of its 150,000-person prison service system, which is currently operating in excess of 160 percent capacity. Overcrowding of this magnitude calls for the new correctional methodologies that public-private partnerships have been proven to provide. Our current market share in the privatized corrections industry in South Africa is 51 percent.

Australia is a Leader in Public-Private Initiatives

Our wholly owned subsidiary, Australian Correctional Management Pty Limited (ACM), designs, builds and operates a number of prisons and immigration detention centers and provides healthcare services for multiple government agencies in Australia and New Zealand.

Although ACM enjoyed success in a number of areas this past year—including the renewal of all but one of its existing contracts—the company was disappointed to learn that Australia's Department of Immigration and Multicultural & Indigenous Affairs (DIMIA) selected a competitor as "preferred tenderer" for the award of a contract to assume operation of the government's immigration detention centers, which currently accommodate approximately 1,200 detainees. ACM has managed these facilities since they were first contracted out in 1997. ACM is the only approved alternate bidder in the event negotiations are not successful with the selected preferred tenderer.

In midyear, the Australian government completed the construction of the 1,200-bed Baxter Immigration Detention Facility in South Australia and closed Curtin, a temporary center. ACM assisted in the transfer of the Curtin population and is managing the new Baxter facility. Additionally, ACM successfully secured the rebid and renegotiated the management of the 710-bed Arthur Gorrie Correctional Centre in Brisbane. We also successfully renegotiated the management of the 725-bed Fulham Correctional Centre in Victoria, where we also contracted to design, construct, manage and finance an additional 68-bed Community Transition Program facility.

Australia is making significant progress in the new market of contracted healthcare in both the corrections and military sectors. We are bidding on the provision of healthcare services at nine installations across the Australian Capital Territory and New South Wales. These are substantial contracts and present a significant new market opportunity for ACM in Australia.

ACM, through its Pacific Shores Healthcare division, has an existing contract with CORE—The Public Correctional Enterprise in Victoria—to provide primary inmate healthcare services. Early in 2002, we implemented

progressive

WCC is bidding on the provision of healthcare services in nine installations in Australia—substantial contracts that present exciting new opportunities.

new responsibilities called for under the terms of the previous year's successful rebid of the contract. We also now provide comprehensive primary healthcare services to 11 public prisons—an addition of two facilities over the nine in the original contract.

Australia has already privatized 20 percent of the corrections and detention market. This is substantially more than any other country in the world, including the U.S. ACM now has a 70 percent share of this privatized market, and the Company is extremely well positioned to seize new business opportunities in new public-private partnership initiatives.

The U.K. Offers Solid Growth Opportunities

Illegal immigration is an ongoing global issue, and perhaps nowhere more so than in the U.K., where the British Home Secretary has indicated that the U.K. needs 30,000 additional illegal immigrant beds.

In 2002, the government also redefined an active Request For Proposal (RFP) for the design, construction and management of Logford House, a new 326-bed immigration and detention removal center in Harmondsworth, Middlesex. Our proposal was submitted by our U.K. joint venture, Premier Custodial Group (PCG). On February 6, 2003, we announced the signing of an eight-year term for the project, with a total operating value of $229 million.

committed

WCC is aggressively pursuing new international markets that are seeking cost-effective, correctional management solutions.

A major driver of growth in the U.K. is the government's strong commitment that all new correctional center requirements will be designed, constructed, managed and financed by the private sector. We are expecting RFPs to be issued for 3,000 new privatized beds.

PCG has an excellent track record in the U.K. for implementing effective management systems that help to reduce costs, improve profitability and ensure employees that their safety is the prime concern. The British Safety Council (one of the world's leading workplace safety organizations) recognized this commitment when it awarded prestigious safety awards to Doncaster and Lowdham Grange prisons. Both prisons were given a five-star rating, which is the highest possible award.

We anticipate that within the next 12 months, the U.K. government will begin the proposal process for the design, construction and management of up to eight immigration centers for approximately 3,000 new beds. The extent of the public-private initiatives now under consideration in the U.K. makes it likely that we will be able to report new business successes in the coming months.

International Growth Potential

In 2002, our four international areas of operation remained Australia, New Zealand, South Africa and the United Kingdom. We are, however, actively driving our growth by aggressively pursuing new international markets that are seeking cost-effective, correctional management solutions.

A correctional officer monitors the day room at an Australian Correctional Management (ACM) facility.

Many countries are reviewing privatization at this time, but WCC has always followed a disciplined business approach, and we are pursuing our international expansion step by step. What we look for is sustained steady growth, and we are achieving solid success in the international arena through our commitment to due diligence.

In the future, we see a rising need for private sector involvement in the management of illegal immigration detention centers. In addition, prison populations around the world are escalating, and the increasing demand for privatized corrections is bound to impact our international business. We also expect to expand our international healthcare services driven by our proven excellence and the need for greater private-public partnerships across all aspects of the healthcare sector.

diversified

WCC is seeking to expand our global presence through diversifying our business offerings, while capitalizing on our core competencies.

- President Bush's new Freedom Commission on Mental Health is likely to conclude that the public-private partnership model for mental healthcare can be significantly expanded.
- Due to WCC's exemplary performance at South Florida State Hospital, the Joint Commission on Accreditation of Healthcare Organizations re-accredited the facility.
- Our success in winning major international contracts highlights WCC's ability to penetrate global markets and deliver diversified services of the highest caliber.

WCC's business development strategy is based on the aggressive pursuit of organic growth through seizing global opportunities that match our business and risk profile. At the same time, we seek to expand our global presence through diversification of our business offerings based on our core competencies. Sectors in which we currently have in-depth global experience and specialized expertise include health and mental healthcare services, special needs population facilities, home detention services and prisoner transport services.

Diversification in North America

Perhaps the most significant development over the last year for our North American diversified business was the introduction of President Bush's new Freedom Commission on Mental Health, which is charged with studying the nation's mental health service delivery system, including public and private sector providers. The Commission's goal is to formulate policy options that could be implemented by public and private providers, as well as federal, state and local governments to integrate the use of effective treatments and services.

Meetings between the Commission and public and private providers of mental health services are already underway. While it will take at least a year for the Commission to evaluate and report, we believe that an increase in public-private partnerships in the mental health arena will be a significant part of the Commission's recommendations. With our proven skills in the successful management of public and private

Offender computer training program at a Premier Custodial Group, LTD (PCGC) facility in the United Kingdom (top photo).

Correctional officer on patrol at Her Majesty's Prison Kilmarnock in South Lanarkshire, Scotland (bottom photo).

well positioned

WCC is well positioned to leverage the potential for growth in our industry brought about by an increasing national focus on the need for mental health services.

psychiatric hospitals, WCC is ideally positioned to play a substantial role in public-private partnership development.

In 1997, we first established Atlantic Shores Healthcare, Inc. (ASH) as a wholly owned subsidiary of WCC in order to capitalize on the virtually untapped market for public-private partnerships in mental healthcare around the globe. ASH provides comprehensive mental healthcare services in both the public and private sectors. Currently, ASH has approximately 700 healthcare and mental health professionals with extensive administrative and operational experience in clinical and residential settings.

In 1998, the State of Florida Department of Children and Families (DCF) selected ASH to manage the existing South Florida State Hospital and design, construct, finance and manage a new 350-bed mental healthcare complex in Pembroke Pines, Florida. This facility is the first state psychiatric hospital in the nation to be privatized by a for-profit corporation. The project is so successful that the Florida Statewide Advocacy Council has endorsed the expansion of public-private partnerships for psychiatric hospitals elsewhere in Florida.

WCC's performance at South Florida State Hospital has been exemplary, and we are pleased to report that the Joint Commission on Accreditation of Healthcare Organizations (JCAHO) has recently re-accredited the facility. The initial accreditation in 1999 marked

the first time in the hospital's 30-year history that it achieved JCAHO accreditation, a significant achievement of which we are particularly proud. During the 2002 re-accreditation, the facility was measured against approximately 500 standards and achieved a score of 94 percent in meeting those criteria. In fact, two of the hospital's programs have been selected as examples of 'Best Practices' in action and will be included in the educational component of the Joint Commission's website at www.JCAHO.org. Only 32 percent of hospitals surveyed by the Joint Commission received a score of 94 or better on a scale of 100. Achieving JCAHO re-accreditation is a direct credit to the dedication and professionalism of our entire staff and signifies the level of excellence provided by Atlantic Shores Healthcare.

The entire South Florida State Hospital project has been accomplished within the existing hospital operational budget with no new dollars required from the state legislature. Atlantic Shores has successfully managed the state budget to provide a level of services that is considered exemplary by the mental health community as well as the Joint Commission. Additionally, we were successful in absorbing the debt service required for the financing of the new facility. This type of successful fiscal management is extremely desirable to the State of Florida and many other states whose revenues have been shrinking in spite of rising demand for services has been escalating dramatically. On January 31, 2003, we signed a five-year extension to our South Florida State Hospital contract.

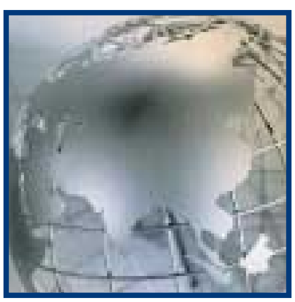
Atlantic Shores has greatly improved outcomes at South Florida State Hospital: we have significantly reduced average lengths of stay, reduced the use of seclusion and restraint, and eliminated waiting lists. With results like these, we believe that other state governments will be adopting the public-private solution in the near future.

WCC also owns and operates Atlantic Shores Hospital in Fort Lauderdale, Florida, a 72-bed private community psychiatric healthcare facility.

The increased national focus on mental health services will create more and more possibilities for growth in our industry. We have already laid solid groundwork with various state legislators promoting our own ability to provide fixed-cost, quality service in public-private partnerships for state mental health hospitals.

successful

WCC's past success spurs our efforts to seek new growth opportunities in the electronic monitoring arena.



Diversification International

Our success in winning major international contracts is proof of WCC's ability to penetrate global markets and deliver diversified services of the highest caliber. In the U.K., the Company manufactures monitoring equipment and provides monitoring services in two of the four contract areas covering England and Wales. Our U.K. operations in this area have performed extremely well, and our contracts have expanded in recent years to include monitoring juveniles. Our success spurs our efforts to seek new growth opportunities in this segment.

Currently, we have approximately 47 percent of the U.K. electronic monitoring services, with 3,220 offenders on electronic tags. We also manage 22 percent of the United Kingdom's privatized prisoner transport services market, providing secure transportation for more than 220,000 prisoners per year.

We are excited about the future of our diversified services business around the world. In Australia, we are bidding on the provision of healthcare services to the military, and we have an existing contract to provide primary inmate healthcare services. We are proud of our successes and are actively engaged in extending delivery of our health services to other clients and countries.

Mental health management team meeting at Atlantic Shores Hospital Fort Lauderdale, Florida (top photo).

Prison Industries Enhancement (PIE) Program at the Lockhart Secure Work Program Facilities in Lockhart, Texas. (right photo).

CONTRACTS AND OPERATIONS

NORTH AMERICAN SERVICES

Location	Facility Type	Capacity
Federal Jurisdictions		
Aurora INS Processing Center	Immigration Detention-M/F	340
Queens Private Correctional Facility	Immigration Detention-M/F	200
Taft Correctional Institution	Adult Male Low/Minimum Security	2048
Rivers Correctional Institution	Adult Male Minimum Security	1200
Western Region Detention Facility at San Diego	Adult M/F Detention-Maximum Security	616
State Jurisdictions		
California		
Central Valley Modified Community Correctional Facility	Adult Male Medium Security	550
Desert View Modified Community Correctional Facility	Adult Male Medium Security	568
Golden State Modified Community Correctional Facility	Adult Male Medium Security	550
McFarland Medium Community Correctional Facility	Adult Male Community Corrections	224
Florida		
Moore Haven Correctional Facility	Adult Male All Security Levels	750
South Bay Correctional Facility	Adult Male Medium/Close Security	1318
Louisiana		
Allen Correctional Center	Adult Male Medium/Maximum Security	1538
Michigan		
Michigan Youth Correctional Facility	Male Juveniles Adjudicated as Adult-Maximum Security	480
Mississippi		
East Mississippi Correctional Facility	Adult Male Mental-All Security Levels	750
Marshall County Correctional Facility	Adult Male Medium Security	1000
New Mexico		
Guadalupe Correctional Facility	Adult Male All Security Levels	600
Guadalupe Correctional Facility	Expansion for Level III inmates	64
Lea County Correctional Facility	Adult Male All Security Levels	1200
Oklahoma		
Lawton Correctional Center	Adult Male Medium/Minimum Security	1800
Texas		
Bridgeport Correctional Center	Adult Male Pre-Release Center	520
Cleveland Correctional Center	Adult Male Minimum Security	520
Coke County Juvenile Justice Center	Juvenile Male Maximum Security	200
John R. Lindsey State Jail	Adult Male Medium/Minimum Security	1031
Kyle Correctional Center (New Vision)	Adult Male Therapeutic Community	520
Lockhart Secure Work Program Facilities	Adult Female Pre-Release Center	1000
North Texas Intermediate Sanction Facility	Adult Male Short Term Offenders	400
Willacy State Jail	Adult Male Medium/Minimum Security	1000
Local Jurisdictions		
George W. Hill Correctional Facility	M/F/J All Security Levels	1592
George W. Hill Camp	M/F Minimum Security	220
Multiple Jurisdictions		
Broward County Work Release Center	Adult M/F Minimum Security Work Release	300
Central Texas Parole Violator Facility	Adult M/F Medium/Minimum Security	623
Karnes County Correctional Center	Adult Male All Security Levels	579
Val Verde County Correctional Facility & Jail	Adult M/F Medium/Minimum Security	784
North American Services Total		**25,085**

INTERNATIONAL SERVICES

Location	Facility Type	Capacity
England		
Hassockfield Secure Training Centre	Youthful Offender-Medium Security	40
HM Prison & Young Offender Institution Doncaster	Local Prison, Remand Centre & Youthful Offenders	1111
HM Prison Lowdham Grange	Adult Male Category B Training Prison	524
HM Prison & YOI Ashfield	Young Male-Medium Security	400
HM Prison & Therapeutic Community Dovegate	Adult Male Category B & Therapeutic Community	800
Scotland		
Dungavel House Immigration Detention Centre	M/F Immigration Detention-Minimum Security	150
HMP Kilmarnock	Category B/A Remand/Sentenced-Male	548
Australia		
Arthur Gorrie Remand & Reception Centre	Local Prison and Remand Centre-All Security Levels	710
Fulham Correctional Centre (Victoria)	Adult Male Medium Security	725
Fulham Correctional Centre Expansion		68
Junee Correctional Centre	Adult M/F Medium Security-All Security Levels	750
Dept of Immigration & Multicultural & Indigenous Affairs		
DIMIA-Baxter	Immigration Detention & Transportation	1200
DIMIA-Christmas Island	Immigration Detention & Transportation	300
DIMIA-CoCos Island	Immigration Detention & Transportation	150
DIMIA-Maribyrnong	Immigration Detention & Transportation	80
DIMIA-Perth	Immigration Detention & Transportation	66
DIMIA-Port Hedland	Immigration Detention & Transportation	700
DIMIA-Villawood	Immigration Detention & Transportation	700
DIMIA-Woomera	Immigration Detention & Transportation	1200
Melbourne Custody Centre	Court Escort & Custody Services	80
New Zealand		
Auckland Central Remand Prison	Adult Male Remand incl. Special Needs-Med/Min	383
Republic of South Africa		
Kutama Sinthumule Maximum Security Prison	Adult Male Maximum Security	3024
International Services Total		**13,709**
Total North American & International Services		**38,794**

DIVERSIFIED SERVICES

Location	Facility Type	Capacity
Hospitals		
Atlantic Shores Healthcare, Inc.		
Atlantic Shores Hospital	Special Needs-Private Psychiatric Hospital	72
South Florida State Hospital	Special Needs-State Psychiatric Hospital	350
Hospital Total		**422**
Total Operations		**39,216**
Other Contracts		
Canada		
New Brunswick Youth Centre	Male/Female Youthful Offenders (maintenance contract)	112
England/Wales		
PPS Prisoner Escort & Custody Service	Secure Prisoner Escort & Transportation	N/A
PPS Home Monitoring Service	Home Detention Services	N/A
Australia		
Pacific Shores Healthcare	Health Services for 100% of the State's public prisons	N/A
Florida		
Broward County Women's Jail	Design/Construction only	1020

DIRECTORS AND SENIOR OFFICERS

Standing shown from left : Lars Nørby Johansen, Søren Lundsberg-Nielsen, Richard Glanton, Anne N. Foreman; Seated shown from left: George C. Zoley, Norman A. Carlson, G. Fred DiBona, Jr., Benjamin R. Civiletti, Wayne H. Calabrese

Shown from left: John G. O'Rourke, Carol M. Brown, Wayne H. Calabrese, George C. Zoley, Donald H. Keens, John M. Hurley, John J. Bulfin

BOARD OF DIRECTORS

Wayne H. Calabrese *Vice Chairman, President and Chief Operating Officer*

Norman A. Carlson *Former Director, Federal Bureau of Prisons; Senior Lecturer University of Minnesota*

Benjamin R. Civiletti *Former Attorney General of the United States; Chairman of the law firm Venable, Baetjer & Howard*

G. Fred DiBona, Jr. *President and Chief Executive Officer of Independence Blue Cross*

Anne N. Foreman *Former Undersecretary of the United States Air Force*

Richard H. Glanton *Partner in the law firm Reed Smith, LLP*

Lars Nørby Johansen *President and Chief Executive Officer, Group 4 Falck A/S*

Søren Lundsberg-Nielsen *General Counsel, Group 4 Falck A/S*

George C. Zoley *Chairman of the Board and Chief Executive Officer*

SENIOR OFFICERS

George C. Zoley *Chairman of the Board and Chief Executive Officer*

Wayne H. Calabrese *Vice Chairman, President and Chief Operating Officer*

John G. O'Rourke *Senior Vice President, Chief Financial Officer & Treasurer*

John J. Bulfin *Senior Vice President and General Counsel*

Donald H. Keens *Senior Vice President, International Operations*

John M. Hurley *Senior Vice President, North American Operations*

Carol M. Brown *Senior Vice President, Health Services*

Market for the Company's Common Equity and Related Stockholder Matters

The following table shows the high and low prices for Wackenhut Corrections Corporation's ("the Company") common stock, as reported by the New York Stock Exchange, for each of the four quarters of fiscal 2002 and 2001. The prices shown have been rounded to the nearest $1/100th. The approximate number of shareholders of record as of March 10, 2003, was 175.

	2002		2001	
Quarter	**High**	**Low**	High	Low
First	**$ 17.42**	**$ 13.86**	$ 9.88	$ 7.44
Second	**15.95**	**13.95**	14.50	8.85
Third	**14.90**	**10.46**	14.63	12.35
Fourth	**12.60**	**10.50**	16.30	11.90

The Company intends to retain its earnings to finance the growth and development of its business and does not anticipate paying cash dividends on its capital stock in the foreseeable future. Future dividends, if any, will depend, among other things, on the future earnings, capital requirements, restrictions under the Company's Senior Credit Facility and financial condition of the Company, and on such other factors as the Company's Board of Directors may consider relevant.

During fiscal 2001 the Company purchased 122,000 shares of its common stock at an average price of $12.68 per share. The Company did not buy back any of its stock during 2002.

Wackenhut Corrections Corporation

Selected Financial Data

(U.S. dollars in thousands, except per share and operational data)

The selected consolidated financial data should be read in conjunction with the Company's consolidated financial statements and the notes thereto.

FISCAL YEAR ENDED: [1]		**2002**			2001			2000			1999			1998	
RESULTS OF OPERATIONS:															
Revenues	**$**	**568,612**	**100.0%**	$	562,073	100.0%	$	535,557	100.0%	$	438,484	100.0%	$	312,759	100.0%
Operating income		**27,876**	**4.9%**		24,184	4.3%		18,912	3.5%		26,041	5.9%		22,501	7.2%
Income before cumulative effect of change in accounting for start-up costs		**21,501**	**3.8%**		19,379	3.4%		16,994	3.2%		21,940	5.0%		16,828	5.4%
Cumulative effect of change in accounting for start-up costs		**–**	**0.0%**		–	0.0%		–	0.0%		–	0.0%		(11,528)	(3.7%)
Net income	**$**	**21,501**	**3.8%**	$	19,379	3.4%	$	16,994	3.2%	$	21,940	5.0%	$	5,300	1.7%
EARNINGS PER SHARE – BASIC:															
Income before cumulative effect of change in accounting for start-up costs	**$**	**1.02**		$	0.92		$	0.81		$	1.01		$	0.76	
Cumulative effect of change in accounting for start-up costs		**–**			–			–			–			(0.52)	
Net income	**$**	**1.02**		$	0.92		$	0.81		$	1.01		$	0.24	
EARNINGS PER SHARE – DILUTED:															
Income before cumulative effect of change in accounting for start-up costs	**$**	**1.01**		$	0.91		$	0.80		$	1.00		$	0.74	
Cumulative effect of change in accounting for start-up costs		**–**			–			–			–			(0.51)	
Net income	**$**	**1.01**		$	0.91		$	0.80		$	1.00		$	0.23	
WEIGHTED AVERAGE SHARES OUTSTANDING:															
Basic		**21,148**			21,028			21,110			21,652			22,119	
Diluted		**21,364**			21,261			21,251			22,015			22,683	
FINANCIAL CONDITION:															
Current assets	**$**	**139,583**		$	140,132		$	129,637		$	134,893		$	94,464	
Current liabilities		**74,994**			72,245			73,636			55,516			28,145	
Total assets		**402,658**			242,023			223,571			204,425			148,008	
Total debt		**125,000**			–			10,000			15,000			213	
Shareholders' equity		**152,642**			130,361			127,164			118,684			102,940	
OPERATIONAL DATA:															
Contracts/awards		**59**			61			57			56			52	
Facilities in operation		**59**			59			51			50			40	
Design capacity of contracts		**39,216**			39,965			39,944			39,930			35,707	
Design capacity of facilities in operation		**39,148**			35,941			32,536			32,110			26,651	
Compensated resident days (2)		**10,850,003**			11,068,912			10,572,093			9,636,099			7,678,858	

(1) The Company's fiscal year ends on the Sunday closest to the calendar year end. Fiscal 1998 included 53 weeks. Fiscal 2002, 2001, 2000, and 1999 each included 52 weeks.

(2) Compensated resident days are calculated as follows: (a) per diem rate facilities — the number of beds occupied by residents on a daily basis during the fiscal year and, (b) fixed rate facilities — the design capacity of the facility multiplied by the number of days the facility was in operation during the fiscal year. Amounts exclude compensated resident days for United Kingdom and South Africa facilities.

Management's Discussion and Analysis of Financial Condition and Results of Operations

Introduction

The following discussion and analysis provides information which management believes is relevant to an assessment and understanding of the Company's consolidated results of operations and financial condition. The discussion should be read in conjunction with the consolidated financial statements and notes thereto.

Forward-Looking Statement

Certain statements included in this document may contain forward-looking statements regarding future events and future performance of the Company that involves risks and uncertainties that could materially affect actual results, including statements regarding estimated earnings, revenues and costs and estimated openings of new facilities and new global business development opportunities. For further discussion of these statements, refer to the inside back cover of this document.

Overview

The Company, a 56% owned subsidiary of The Wackenhut Corporation, a wholly-owned subsidiary of Group 4 Falck A/S, is a leader in offering government agencies a turnkey approach to developing new correctional institutions that includes design, construction, financing and operations. It provides a broad spectrum of correctional services, which include adult corrections, juvenile facilities, community corrections and special purpose institutions. Additionally, the Company is a leading developer and manager of public sector mental health facilities.

The Company has contracts/awards to manage 59 correctional facilities in the United States, the United Kingdom, Australia, South Africa, and New Zealand with a total of 39,216 beds, and additional contracts for prisoner transportation, correctional health care services, mental health services, and facility design and construction.

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. The Company routinely evaluates its estimates based on historical experience and on various other assumptions that management believes are reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions. 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:

Revenue Recognition

In accordance with SEC Staff Accounting Bulletin No. 101 and related interpretations, facility management revenues are recognized as services are provided under facility management contracts with approved government appropriations based on a net rate per day per inmate or on a fixed monthly rate. Project development and design revenues are recognized as earned on a percentage of completion basis measured by the percentage of costs incurred to date as compared to estimated total cost for each contract. This method is used because management considers costs incurred to date to be the best available measure of progress on these contracts. Provisions for estimated losses on uncompleted contracts and changes to cost estimates are made in the period in which the Company determines that such losses and changes are probable. Contract costs include all direct material and labor costs and those indirect costs related to contract performance. Changes in job performance, job conditions, and estimated profitability, including those arising from contract penalty provisions, and final contract settlements may result in revisions to estimated costs and income, and are recognized in the period in which the revisions are determined.

The Company extends credit to the government agencies contracted with and other parties in the normal course of business as a result of billing and receiving payment for services thirty to sixty days in arrears. Further, the Company regularly reviews outstanding receivables, and provides estimated losses through an allowance for doubtful accounts. In evaluating the level of established reserves, the Company makes judgments regarding its customers' ability to make required payments, economic events and other factors. As the financial condition of these parties change, circumstances develop or additional information becomes available, adjustments to the allowance for doubtful accounts may be required.

Property and Equipment

As of December, 29 2002, the Company had approximately $206 million in long-lived property and equipment. Property and equipment are recorded at cost. Depreciation is provided using the straight-line method over the estimated useful lives. Leasehold improvements are amortized on a straight-line basis over the shorter of the useful life of the improvement or the term of the lease. We perform ongoing evaluations of the estimated useful lives of our property and equipment for depreciation purposes. The estimated useful lives are determined and continually evaluated based on the period over which services are expected to be rendered by the asset. Maintenance and repair items are expensed as incurred.

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

Income Taxes

Deferred tax assets and liabilities are recognized as the difference between the book basis and tax basis of its net assets. In providing for deferred taxes, the Company considers current tax regulations, estimates of future taxable income and available tax planning strategies. If tax regulations, operating results or the ability to implement tax-planning strategies vary, adjustments to the carrying value of deferred tax assets and liabilities may be required.

Reserve for Insurance Losses

Casualty insurance related to workers' compensation, general liability and automobile insurance coverage is provided through an independent insurer. The insurance program consists of primary and excess insurance coverage. The primary general liability coverage has a $5 million limit per occurrence with a $20 million general aggregate limit and a $1 million deductible. The primary automobile coverage has a $5 million limit per occurrence with a $1 million deductible and the primary workers' compensation insurance limits are based on state statutes and contain a $1 million deductible. The excess coverage has a $50 million limit per occurrence and in the aggregate. The Company believes such limits are adequate to insure against the various liability risks of its business. The Company is self-insured for employment claims and medical malpractice.

Because the policy is a high deductible policy, losses are recorded as reported and provision is made to cover losses incurred but not reported. Loss reserves are undiscounted and are computed based on independent actuarial studies.

Financial Condition

Liquidity and Capital Resources

The Company's principal sources of liquidity are from operations, borrowings under its credit facilities, and sale of prison facilities or of its rights to acquire prison facilities. Cash and equivalents totaled $35.2 million at December 29, 2002, compared to $46.1 million at December 30, 2001. Net working capital totaled $64.6 million at December 29, 2002, compared to $67.9 million at December 30, 2001.

Prior to December 12, 2002, the Company's sources of liquidity were a $30 million multi-currency revolving credit facility, which included $5 million for the issuance of letters of credit and a $154.3 million operating lease facility established to acquire and develop new correctional institutions used in its business. No amounts were outstanding under the revolving credit facility and $154.3 million was outstanding under the operating lease facility. The term of the operating lease facility was set to expire December 18, 2002 upon which the Company had the ability to purchase the properties in the facility for their original acquisition cost.

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

Senior Credit Facility, the Company terminated its $154.3 million operating lease facility and $30 million multi-currency revolving credit facility, both of which would have expired on December 18, 2002.

The Revolving Credit Facility contains a $30 million limit for the issuance of standby letters of credit. At December 29, 2002, $125 million was outstanding under the Term Loan Facility, there were no borrowings under the Revolving Credit Facility, and there were $7.2 million of outstanding letters of credit. At December 29, 2002, $42.8 million of the Revolving Credit Facility was available to the Company for working capital, acquisitions, general corporate purposes, and certain restricted payments, as defined.

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

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

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

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

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

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

In connection with the financing and management of one Australian facility, the Company's wholly owned Australian subsidiary financed the facility's development with long-term debt obligations, which are non-recourse to the Company. The Company has consolidated the subsidiary's direct finance lease receivable from the state government and related non-recourse debt each totaling approximately $31 million as of December 29, 2002. The Company has reclassified the amounts reflected in the December 30, 2001 balance sheet to reflect the asset and related non-recourse debt of approximately $26 million to conform to current year presentation. The term of the non-recourse debt is through 2017 and it bears interest at a variable rate quoted by certain Australian banks plus 140 basis points. Any obligations or liabilities of the subsidiary are matched by a similar or corresponding commitment from the government of the State of Victoria. In connection with the non-recourse debt, the subsidiary is a party to an interest rate swap agreement to fix the interest rate on the variable rate non-recourse debt to 9.7%. Management of the Company has determined the swap to be an effective cash flow hedge. Accordingly, the Company has recorded the value of the interest rate swap in other comprehensive income, net of applicable income taxes.

Cash provided by operating activities amounted to $22.2 million in fiscal 2002 compared to cash provided by operating activities of $29.5 million in fiscal 2001, primarily reflecting an increase in other current assets and accounts receivable as well as a decrease in accounts payable and accrued expenses. These were partially offset by higher net income, depreciation expense and an increase in other liabilities primarily driven by costs related to employment agreements with certain key executives triggered by the change in control from the sale of TWC as well as an acceleration of the retirement age under the senior executive deferred compensation plans, also a result of the sale of TWC.

Cash used in investing activities increased by $155.4 million to $159.3 million in fiscal 2002 as compared to fiscal 2001. This change is primarily due to the purchase by the Company in December 2002 of four correctional facilities in operation under the Company's prior operating lease facility. In December 2002, the Company acquired four correctional properties that were formerly included in the Company's operating lease facility for an aggregate purchase price of approximately $155 million.

Cash provided by financing activities increased by $140.4 million to $129.2 million in fiscal 2002 as compared to fiscal 2001. This change primarily reflects borrowings under the Company's Senior Credit Facility completed December 12, 2002.

Current cash requirements consist of amounts needed for working capital, capital expenditures and supply purchases, investments in joint ventures, and investments in facilities. Some of the Company's management contracts require the Company to make substantial initial expenditures of cash in connection with opening or renovating a facility. The initial expenditures subsequently are fully or partially recoverable as pass-through costs or are billable as a component of the "per diem" rates or monthly fixed fees to the contracting agency over the original term of the contract.

Management believes that cash on hand, cash flows from operations and available lines of credit will be adequate to support currently planned business expansion and various obligations incurred in the operation of the Company's business, both on a near and long-term basis.

The Company's access to capital and ability to compete for future capital-intensive projects is dependent upon, among other things, its ability to meet certain financial covenants in the $175 million Senior Credit Facility. A substantial decline in the Company's financial performance as a result of an increase in operational expenses relative to revenue could limit the Company's access to capital.

Inflation

Management believes that inflation, in general, did not have a material effect on the Company's results of operations during fiscal 2002 and 2001. However, in fiscal 2000, the Company experienced increased wage pressures due to tight labor markets in certain key geographic areas. In addition, the Company was negatively impacted by significant increases in utilities costs in fiscal 2000, particularly in the western United States. While some of the Company's contracts include provisions for inflationary indexing, inflation could have a substantial adverse effect on the Company's results of operations in the future to the extent that wages and salaries, which represent the largest expense to the Company, increase at a faster rate than the per diem or fixed rates received by the Company for its management services.

Market Risk

The Company is exposed to market risks, including changes in interest rates and fluctuations in foreign currency exchange rates between the U.S. dollar and the Australian dollar, British pound and South African rand currency exchange rates.

These exposures primarily relate to changes in interest rates with respect to the $175 million Senior Credit Facility. Monthly payments under these facilities are indexed to a variable interest rate. Based upon the Company's interest rate and foreign currency exchange rate exposure at December 29, 2002, a hypothetical 100 basis point change in the current interest rate or a 10 percent increase in historical currency rates would have approximately a $1.5 million effect on the Company's financial position and results of operations over the next fiscal year.

The Company has entered into certain interest rate swap arrangements fixing the interest rate on its Australian non-recourse debt to 9.7%. Additionally, the Company's UK affiliate is a party to interest swap arrangements that fix the interest rate on the UK affiliate's debt to rates ranging from 6.2% to 8.7%. The difference between the floating rate and the swap rate on these instruments is recognized in interest expense within the respective entity. Because the interest rates with respect to these instruments are fixed, a hypothetical 100 basis point change in the current interest rate would not have a material impact on our financial statements.

Additionally, the Company invests its 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 instruments are subject to interest rate risk, a hypothetical 10% increase or decrease in market interest rates would not have a material impact on our financial statements.

Results of Operations

The following discussion should be read in conjunction with the Company's consolidated financial statements and notes thereto.

Fiscal 2002 compared with Fiscal 2001

Revenues increased $6.5 million, or 1.2% to $568.6 million in 2002 from $562.1 million in 2001. The increase in revenues is the result of new facility openings and increases in per diem rates offset by lower construction revenue and the closure of a number of facilities. Specifically, revenue increased approximately $27.4 million in 2002 compared to 2001 due to increased compensated resident days at a number of domestic facilities, including, but not limited to, the facilities opened in 2001 (Val Verde Correctional Facility, Del Rio, Texas and the Rivers Correctional Institution, Winton, North Carolina) and an overall increase in per diem rates. Revenues decreased by approximately $9.4 million in 2002 compared to 2001 due to the decline in construction revenue. Offsetting the increase, revenue was reduced by approximately $11.5 million in 2002 compared to 2001 due to the expiration of our contracts with the Arkansas Board of Correction and Community Punishment in 2001 and the expiration of the Bayamon Correctional Facility contract in June 2002.

The number of compensated resident days in domestic facilities remained constant at 9.2 million for 2002 and 2001. Average facility occupancy in domestic facilities increased to 98.5% in 2002 from 97% in 2001. Compensated resident days in Australian facilities decreased to 1.7 million in 2002 from 1.9 million in 2001 primarily due to lower population levels at the immigration and detention centers. Average facility occupancy in Australian facilities decreased to 91.4% in 2002 from 94.3% in 2001, based on declining facility capacity designation adjusted to client needs.

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

The Company has thirty-three existing contracts up for renewal in 2003. Management expects to renew these contracts but can provide no assurance that the Company will be successful in these efforts.

Operating expenses decreased by 1.4% to $496.5 million in 2002 compared to $503.5 million in 2001. As a percentage of revenues, operating expenses decreased to 87.3% in 2002 from 89.6% in 2001. This decrease primarily reflects the absence of $3.5 million in start-up costs related to the opening of the Val Verde, Texas and Winton, North Carolina facilities in 2001, as well as significantly lower expenses related to construction activities, the expiration of the contracts with the Arkansas Board of Correction and Community Punishment and Bayamon Correctional Facility and a decrease in expenses related to the Company's operating lease credit facility, which was refinanced December 12, 2002. These decreases were partially offset by an increase in lease expense for payments made to CPV of $21.3 million offset by $1.8 million in amortization of the deferred revenue from the sale of properties to CPV in 2002 compared with lease expense for payments made to CPV of $20.9 million offset by $1.9 million in amortization of the deferred revenue from the sale of properties to CPV in 2001.

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

Depreciation and amortization increased by 21.9% to $12.1 million in 2002 from $9.9 million in 2001 due to the newly operational facilities in 2002, the addition of the four facilities as a result of the refinancing of the Company's operating lease facility and incremental depreciation due to assets acquired in the Company's development of the internal support structure previously provided by TWC. As a percentage of revenues, depreciation and amortization increased to 2.1% from 1.8% in 2001.

Contribution from operations increased 23.5% to $60 million in 2002 from $48.6 million in 2001. As discussed above, this increase is primarily attributable to the absence of start-up costs for newly constructed facilities, an overall increase in per diem rates, significantly improved financial performance at a number of existing facilities, the discontinuation of an unprofitable contract in 2001 in Arkansas, decreased expense under the Company's operating lease facility and other factors as discussed above. As a percentage of revenue, contribution from operations increased to 10.6% in 2002 from 8.6% in 2001.

General and administrative expenses increased 31.6% to $32.1 million in 2002 from $24.4 million in 2001. As a percentage of revenue, general and administrative expenses increased to 5.7% in 2002 from 4.3% in 2001. The increase was primarily driven by payments under employment agreements with certain key executives triggered by the change in control from the sale of TWC as well as an acceleration of the retirement age under the senior executive deferred compensation plans, also a result of the sale of TWC. Other factors impacting the increase were higher insurance costs, increased legal and professional fees and higher travel costs.

Related party transactions occur in the normal course of business between the Company and TWC. Such transactions include the purchase of goods and services and corporate costs for information technology support, office space and interest expense. Total related party transaction costs with TWC, excluding casualty insurance, were approximately $3.1 million in fiscal 2002 as compared to $3.2 million in fiscal 2001. TWC provided various general and administrative services to the Company under a Services Agreement, through which TWC provided payroll services, human resources support, tax services and information technology support services through December 31, 2002. Beginning January 1, 2003, the only services provided are for information technology support through year-end 2004. The Company has negotiated annual rates with TWC based upon the level of service to be provided under the Services Agreement. The Company also leases office space from TWC for its corporate headquarters under a non-cancelable operating lease that expires February 11, 2011. Management of the Company has decided to relocate its corporate headquarters to Boca Raton, Florida and has entered into a ten-year lease for new office space. The Company expects to complete the move by April 2003. Management is in the process of marketing the space the Company currently leases from TWC and believes that a sublease will be entered into under terms and conditions similar to those contained in the Company's lease with TWC. The remaining obligation on the lease is approximately $5.3 million. There can be no assurance that the Company will be successful in its efforts to sublease the current office space.

Operating income increased by 15.3% to $27.9 million in 2002 from $24.2 million in 2001. As a percentage of revenue, operating income increased to 4.9% in 2002 from 4.3% in 2001 due to the factors impacting contribution from operations described above.

Interest income increased 12.1% to $4.8 million in 2002 from $4.3 million in 2001. This increase is primarily due to higher average invested cash balances.

Interest expense increased slightly to $3.7 million in 2002 from $3.6 million in 2001 reflecting higher effective interest rates as a result of the refinancing completed on December 12, 2002.

Income before income taxes and equity in earnings of affiliates, increased to $28.9 million in 2002 from $24.9 million in 2001 due to the factors described previously.

Provision for income taxes increased to $12.7 million in 2002 from $9.7 million in 2001 due to the increase in income before income taxes and a higher effective tax rate. The higher effective tax rate reflects an increase in the tax provision to provide for higher additional taxes due to the disallowance of certain expenses resulting from the sale of TWC.

Equity in earnings of affiliates, net of income tax provision, increased 23.7% to $5.2 million in 2002 from $4.2 million in 2001. Fiscal year 2001 reflects start-up costs associated with the opening of the 800-bed Dovegate prison in the United Kingdom, in July 2001, and the opening of the 150-bed Dungavel House Immigration Detention Centre in the United Kingdom, in August 2001. Fiscal 2002 reflects the full activation of these facilities offset by start-up costs and phase-in losses related to the 3,024-bed South African prison, which opened in February 2002. Additionally, performance issues at the Ashfield Facility negatively impacted fiscal 2002 results.

Net income increased 10.9% to $21.5 million in 2002 from $19.4 million in 2001 as a result of the factors described above.

Fiscal 2001 compared with Fiscal 2000

Revenues increased $26.5 million, or 5.0% to $562.1 million in 2001 from $535.6 million in 2000. The increase in revenues is the result of new facility openings offset by lower construction revenue, closure of two facilities and lower compensated resident days at the DIMIA facilities in Australia. Specifically, revenue increased approximately $52.5 million in 2001 compared to 2000 due to increased compensated resident days resulting from the opening of two facilities in 2000, (Auckland Central Remand Prison, Auckland, New Zealand in July 2000 and the Western Region Detention Facility at San Diego, San Diego, California in July 2000) and the opening of two facilities in 2001 (Val Verde Correctional Facility, Del Rio, Texas in January 2001 and the Rivers Correctional Institution, Winton, North Carolina in March 2001). Revenues decreased by approximately $27.3 million in 2001 compared to 2000 due to less construction activity. Revenues also decreased by approximately $10.4 million in 2001 compared to 2000 due to the cessation of operations at the Jena Juvenile Justice Center, the expiration of our contracts with the Arkansas Board of Correction and Community Punishment and a decline in compensated resident days at the DIMIA facilities. The balance of the increase in revenues was attributable to facilities open during all of both periods and increases in per diem rates.

The number of compensated resident days in domestic facilities increased to 9.2 million in 2001 from 8.8 million in 2000. Average facility occupancy in domestic facilities was 97% for 2001 and 2000. Compensated resident days in Australian facilities increased to 1.9 million in 2001 from 1.8 million in 2000 primarily due to the opening of the Auckland Central Remand Prison in July 2000. Average facility occupancy in Australian facilities decreased to 94.3% in 2001 from 99.1% in 2000.

In December 2001, the Company was issued a notice of contract non-renewal by the Administration of Corrections from the Commonwealth of Puerto Rico for the management of the Bayamon Correctional Facility. The current contract was set to expire March 23, 2002. The contract expired June 23, 2002. The termination of the management contract did not have a significant adverse impact on the Company's results of operations and cash flows.

Operating expenses increased by 3.4% to $503.5 million in 2001 compared to $486.9 million in 2000. As a percentage of revenues, operating expenses decreased to 89.6% in 2001 from 90.9% in 2000. This increase primarily reflects the four facilities that were opened in 2001 and 2000, as described above. Additionally, there are a number of secondary factors contributing to the increase in operating expenses in 2001 as compared to 2000 which include the following: lease expense for payments made to CPV of $20.9 million, excluding the Jena lease payments included in the Jena charge, offset by $1.9 million in amortization of the deferred revenue from the sale of properties to CPV; and expenses related to the construction of a new facility for the government of the Netherlands Antilles. The decrease as a percentage of revenue is the result of improved operations at a number of facilities including: Lea County Correctional Facility (New Mexico), Michigan Youth Correctional Facility (Michigan), and North Texas Intermediate Sanction Facility (Texas) and the termination of its management service contract for the Grimes and McPherson Correctional Facilities on June 30, 2001. The Company implemented strategies to improve the operational performance of these facilities and believes their performance has stabilized. However, there can be no assurance that these strategies will continue to be successful. Additionally during 2001 the Company renegotiated its management contract for the George W. Hill Correctional Facility. The Company purchases comprehensive general liability, automobile liability and workers' compensation with a $1 million deductible per occurrence. The deductible portion of the Company's risk was re-insured by TWC's wholly-owned captive re-insurance company. The Company paid TWC a fee for the transfer of the deductible exposure. The Company's insurance costs increased significantly during the third and fourth quarter of 2001 due to a hardened seller's insurance market, which was exacerbated by the events of September 11, 2001 and historical adverse claims experience. The Company paid premiums related to this program of approximately $22 million in fiscal 2001 as compared to approximately $13.6 million in fiscal 2000. The Company has implemented a strategy to improve the management of future claims incurred by the Company but can provide no assurance that this strategy will result in lower insurance rates. In addition to the casualty insurance program with TWC, related party transactions occur in the normal course of business between the Company and TWC. Such transactions include the purchase of goods and services and corporate costs for management support, office space and interest expense. Total related party transaction costs with TWC, excluding casualty insurance, were approximately $3.2 million in fiscal 2001 as compared to $3.8 million in fiscal 2000. As previously discussed, the Company also incurred significant unanticipated wage increases in 2000 due to tight labor markets. The Company did not experience significant unanticipated wage increases in 2001.

In 2001, the Company reported an operating charge of $3 million ($1.8 million after tax, or $0.09 per share), related to the Jena, Louisiana facility which represents the expected losses to be incurred on the lease through December 2002 as management believed a sale of the facility would be finalized by that date or an alternative use would have been be found. At December 30, 2001, the Company's total remaining obligation under the lease agreement was approximately $14 million. This compares with a charge of $3.8 million in 2000 ($2.3 million after tax, or $0.11 per share). At that time the Company estimated the facility would remain inactive through 2001.

Depreciation and amortization increased by 14.8% to $9.9 million in 2001 from $8.6 million in 2000 due to the new facilities added in 2001 and a full year of depreciation on the San Diego facility added in 2000. As a percentage of revenues, depreciation and amortization increased to 1.8% from 1.6% in 2000.

Contribution from operations increased 21.4% to $48.6 million in 2001 from $40 million in 2000. As discussed above, this increase is primarily attributable to the four new facilities that opened in 2001 and 2000 and the other factors discussed above. As a percentage of revenue, contribution from operations increased to 8.6% in 2001 from 7.5% in 2000.

General and administrative expenses increased 15.6% to $24.4 million in 2001 from $21.1 million in 2000. The increase reflects costs related to additional personnel and infrastructure as well as increased salary costs and higher travel costs. As a percentage of revenue, general and administrative expenses increased to 4.3% in 2001 from 3.9% in 2000.

Operating income increased by 27.9% to $24.2 million in 2001 from $18.9 million in 2000. As a percentage of revenue, operating income increased to 4.3% in 2001 from 3.5% in 2000 due to the factors impacting contribution from operations.

Interest income decreased 29.9% to $4.3 million in 2001 from $6.1 million in 2000. This decrease is primarily due to lower average invested cash balances, lower interest rates and the sale of a portion of the Company's loans to overseas affiliates in 2000.

Interest expense decreased 25.1% to $3.6 million in 2001 from $4.8 million in 2000. This decrease is due to decreased interest rates and paying down $10 million in long-term debt during 2001.

Other income in 2000 of $0.6 million represents a gain from the sale of a portion of the Company's loans to overseas affiliates. There was no such activity in 2001.

Income before income taxes and equity in earnings of affiliates, increased to $24.9 million in 2001 from $20.9 million in 2000 due to the factors described previously.

Provision for income taxes increased to $9.7 million in 2001 from $8.4 million in 2000 due to the increase in income before income taxes. The Company's effective tax rate decreased 1% due to lower foreign tax rates.

Equity in earnings of affiliates, net of income tax provision, decreased 6.0% to $4.2 million in 2001 from $4.5 million in 2000 due to phase-in costs associated with the 800-bed Dovegate prison in the United Kingdom, which opened in the third quarter of 2001, and start-up costs related to the 3,024-bed South African prison on schedule to open in mid-February, 2002.

Net income increased 14.0% to $19.4 million in 2001 from $17 million in 2000 as a result of the factors described above.

Consolidated Statements of Income

(U.S. dollars in thousands, except per share data)

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

	2002	2001	2000
REVENUES	$ 568,612	$ 562,073	$ 535,557
OPERATING EXPENSES			
(including amounts related to The Wackenhut Corporation			
(TWC) of $17,973, $21,952, and $13,588)	496,497	503,547	486,884
DEPRECIATION AND AMORTIZATION	12,093	9,919	8,639
CONTRIBUTION FROM OPERATIONS	60,022	48,607	40,034
GENERAL AND ADMINISTRATIVE EXPENSES			
(including amounts related to TWC of $3,105, $3,117, and $3,783)	32,146	24,423	21,122
OPERATING INCOME	27,876	24,184	18,912
INTEREST INCOME			
(including amounts related to TWC of $3, $9, and $8)	4,794	4,278	6,104
INTEREST EXPENSE			
(including amounts related to TWC of ($35), ($58), and ($73))	(3,737)	(3,597)	(4,801)
OTHER INCOME, NET	–	–	641
INCOME BEFORE INCOME TAXES AND EQUITY			
IN EARNINGS OF AFFILIATES	28,933	24,865	20,856
PROVISION FOR INCOME TAXES	12,652	9,706	8,352
INCOME BEFORE EQUITY IN EARNINGS OF AFFILIATES	16,281	15,159	12,504
EQUITY IN EARNINGS OF AFFILIATES,			
(net of income tax provision of $3,000, $2,698, and $2,985)	5,220	4,220	4,490
NET INCOME	$ 21,501	$ 19,379	$ 16,994
EARNINGS PER SHARE			
Basic:	$ 1.02	$ 0.92	$ 0.81
Diluted:	$ 1.01	$ 0.91	$ 0.80
BASIC WEIGHTED AVERAGE SHARES OUTSTANDING	21,148	21,028	21,110
DILUTED WEIGHTED AVERAGE SHARES OUTSTANDING	21,364	21,261	21,251

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

Wackenhut Corrections Corporation

Consolidated Balance Sheets

(U.S dollars in thousands, except per share data)

DECEMBER 29, 2002 and DECEMBER 30, 2001

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

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

Wackenhut Corrections Corporation

Consolidated Statements of Cash Flows

(U.S dollars in thousands)

FISCAL YEARS ENDED DECEMBER 29, 2002, DECEMBER 30, 2001, and DECEMBER 31, 2000

	2002	2001	2000
CASH FLOW FROM OPERATING ACTIVITIES:			
Net income	$ 21,501	$ 19,379	$ 16,994
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation and amortization expense	12,093	9,919	8,639
Deferred tax benefit	(711)	(670)	(1,952)
Provision for doubtful accounts	2,368	3,636	1,755
Gain on sale of loans receivable	–	–	(641)
Equity in earnings of affiliates, net of tax	(5,220)	(4,220)	(4,490)
Tax benefit related to employee stock options	1,081	315	–
Changes in assets and liabilities			
(Increase) decrease in assets			
Accounts receivable	(6,851)	(3,219)	(6,227)
Other current assets	(9,048)	1,383	204
Other assets	475	(414)	(3,325)
Increase (decrease) in liabilities			
Accounts payable and accrued expenses	(3,485)	1,525	15,669
Accrued payroll and related taxes	3,936	756	1,768
Deferred revenue	(2,673)	(3,192)	(2,488)
Other liabilities	8,777	4,281	–
Net cash provided by operating activities	22,243	29,479	25,906
CASH FLOWS FROM INVESTING ACTIVITIES:			
Investments in and advances to affiliates	(171)	(130)	(4,515)
Repayments of investments in and advances to affiliates	1,617	4,559	246
Proceeds from the sale of loans receivable	–	–	2,461
Capital expenditures	(160,698)	(8,326)	(19,138)
Net cash used in investing activities	(159,252)	(3,897)	(20,946)
CASH FLOW FROM FINANCING ACTIVITIES:			
Proceeds from long-term debt and non-recourse debt	127,981	–	9,000
Payments on long-term debt	–	(10,000)	(14,000)
Proceeds from the exercise of stock options	1,264	397	12
Repurchase of common stock	–	(1,547)	(4,933)
Net cash provided by (used in) financing activities	129,245	(11,150)	(9,921)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(3,095)	(2,154)	(2,247)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(10,859)	12,278	(7,208)
CASH AND CASH EQUIVALENTS, beginning of period	46,099	33,821	41,029
CASH AND CASH EQUIVALENTS, end of period	$ 35,240	$ 46,099	$ 33,821
SUPPLEMENTAL DISCLOSURES:			
Cash paid during the year for:			
Income taxes	$ 5,589	$ 5,339	$ 6,140
Interest	$ 525	$ 479	$ 631

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

Consolidated Statements of Shareholders' Equity and Comprehensive Income

(U.S dollars in thousands, except per share data)

FISCAL YEARS ENDED DECEMBER 29, 2002, DECEMBER 30, 2001, and DECEMBER 31, 2000

	Common Stock				Accumulated	
	Number of Shares	Amount	Additional Paid-in Capital	Retained Earnings	Other Comprehensive Loss	Total Shareholders' Equity
BALANCE, JANUARY 2, 2000	**21,509**	**$ 215**	**$ 66,908**	**$ 53,463**	**$ (1,902)**	**$ 118,684**
Proceeds from stock options exercised	4	–	12	–	–	12
Common stock repurchased and retired	(500)	(5)	(4,928)	–	–	(4,933)
Comprehensive income:						
Net income	–	–	–	16,994	–	
Change in foreign currency translation, net of income tax benefit of $2,395	–	–	–	–	(3,593)	
Total comprehensive income	–	–	–	–	–	13,401
BALANCE, DECEMBER 31, 2000	**21,013**	**210**	**61,992**	**70,457**	**(5,495)**	**127,164**
Proceeds from stock options exercised	86	1	396	–	–	397
Tax benefit related to employee stock options	–	–	315	–	–	315
Common stock repurchased and retired	(122)	(1)	(1,546)	–	–	(1,547)
Comprehensive income:						
Net income	–	–	–	19,379	–	
Change in foreign currency translation, net of income tax benefit of $1,777	–	–	–	–	(2,780)	
Cumulative effect of change in accounting principle related to affiliate's derivative instruments	–	–	–	–	(12,093)	
Unrealized loss on derivative instruments	–	–	–	–	(474)	
Total comprehensive income	–	–	–	–	–	4,032
BALANCE, DECEMBER 30, 2001	**20,977**	**210**	**61,157**	**89,836**	**(20,842)**	**130,361**
Proceeds from stock options exercised	269	2	1,262	–	–	1,264
Tax benefit related to employee stock options	–	–	1,081	–	–	1,081
Comprehensive income:						
Net income	–	–	–	21,501	–	
Change in foreign currency translation, net of income tax expense of $1,426	–	–	–	–	2,230	
Minimum pension liability adjustment, net of income tax benefit of $323	–	–	–	–	(505)	
Unrealized loss on derivative instruments, net of income tax benefit of $1,688	–	–	–	–	(3,290)	
Total comprehensive income	–	–	–	–	–	19,936
BALANCE, DECEMBER 29, 2002	**21,246**	**$ 212**	**$ 63,500**	**$ 111,337**	**$ (22,407)**	**$ 152,642**

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

(1) General

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

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

(2) Summary of Significant Accounting Policies

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

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

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

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

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

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

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

Impairment of Long-lived Assets

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

Goodwill and Other Intangible Asset

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

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

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

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

Deferred Revenue

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

Revenue Recognition

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

Project development and design revenues are recognized as earned on a percentage of completion basis measured by the percentage of costs incurred to date as compared to estimated total cost for each contract. This method is used because management considers costs incurred to date to be the best available measure of progress on these contracts. Provisions for estimated losses on uncompleted contracts and changes to cost estimates are made in the period in which the Company determines that such losses and changes are probable. Contract costs include all direct material and labor costs and those indirect costs related to contract performance. Changes in job performance, job conditions, and estimated profitability, including those arising from contract penalty provisions, and final contract settlements may result in revisions to estimated costs and income, and are recognized in the period in which the revisions are determined.

Operating Expenses

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

Income Taxes

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

Earnings Per Share

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

Direct Finance Leases

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

Reserves for Insurance Losses

Casualty insurance related to workers' compensation, general liability and automobile insurance coverage is provided through an independent insurer. Prior to October 2, 2002, the first $1 million of coverage was reinsured by an insurance subsidiary of TWC. Effective October 2, 2002, the Company established a new insurance program with a $1 million deductible per occurrence with an independent insurer. The insurance program consists of primary and excess insurance coverage. The primary general liability coverage has a $5 million limit per occurrence with a $20 million general aggregate limit and a $1 million deductible. The primary automobile coverage has a $5 million limit per occurrence with a $1 million deductible and the primary worker's compensation limits are based on state statutes and contain a $1 million deductible. The excess coverage has a $50 million limit per occurrence and in the aggregate. The Company believes such limits are adequate to insure against the various liability risks of its business. The Company is self-insured for employment claims and medical malpractice. There can be no assurance that the Company will be able to obtain or maintain insurance levels as required by its contracts.

Because the policy is a high deductible policy, losses are recorded as reported and provision is made to cover losses incurred but not reported. Loss reserves are undiscounted and are computed based on independent actuarial studies.

Debt Issuance Costs

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

Comprehensive Income

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

Concentration of Credit Risk

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

Foreign Currency Translation

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

Interest Rate Swaps

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

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

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

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

Accounting for Stock-Based Compensation

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

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

Recent Accounting Pronouncements

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

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

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

In July 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." SFAS No. 146 nullifies the guidance previously provided under Emerging Issues Task Force Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." Among other things, SFAS No. 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred as opposed to when there is commitment to a restructuring plan as set forth under the nullified guidance. The Company has early adopted SFAS No. 146 and there was no material impact on its financial position, results of operations or cash flows as a result of adoption.

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

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

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

(3) Property and Equipment

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

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

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

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

(4) Long-Term Debt

Prior to December 12, 2002, the Company was a party to a $30 million multi-currency revolving credit facility, which included $5 million for the issuance of letters of credit and a $154.3 million operating lease facility established to acquire and develop new correctional institutions used in its business. No amounts were outstanding under the revolving credit facility and $154.3 million was outstanding under the operating lease facility. The term of the operating lease facility was set to expire December 18, 2002 upon which the Company had the ability to purchase the properties in the facility for their original acquisition cost.

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

The Revolving Credit Facility contains a $30 million limit for the issuance of standby letters of credit. At December 29, 2002, $125 million was outstanding under the Term Loan Facility, there were no borrowings under the Revolving Credit Facility, and there were $7.2 million of outstanding letters of credit. At December 29, 2002, $42.8 million of the Revolving Credit Facility was available to the Company for working capital, acquisitions, general corporate purposes, and for restricted payments as defined in the Senior Credit Facility.

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

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

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

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

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

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

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

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

(5) Investment in Direct Finance Leases

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

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

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

(6) Transactions with Correctional Properties Trust ("CPV")

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

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

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

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

Fiscal Year	Annual Rental
	(In thousands)
2003	$ 23,451
2004	23,527
2005	23,606
2006	23,688
2007	23,773
Thereafter	18,287
	$ 136,332

(7) Commitments and Contingencies

Facilities

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

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

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

The Company, through Premier Custodial Group Limited ("PCG"), a 50 percent owned joint venture in the United Kingdom, operates the 400-bed Youthful Offender Institution at Ashfield (the "Ashfield Facility"). On May 23, 2002, the UK Prison Service assumed operational control of the Ashfield Facility based upon the Prison Service's concern over safety and control. Control of the Ashfield Facility was restored to PCG on October 14, 2002. Under the terms of PCG's contract, PCG is paid for operational services on the basis of "Available Prisoner Places." Prior to assuming operational control, the Prison Service paid PCG based upon 400 Available Prisoner Places. From May 23, 2002 through October 23, 2002, the Prison Service paid PCG only for the number of beds actually occupied, which averaged approximately 200 during this period. As a result, PCG's revenues for the Ashfield Facility were reduced by approximately half during this period. In addition, PCG incurred costs in additional resources and staff brought in to address the operational issues at Ashfield. PCG provided the Prison Service with a comprehensive plan for addressing all operational issues at the Ashfield Facility, which was approved by the Authority and implemented by PCG. Effective October 23, 2002, the Prison Service restored payment to PCG for 400 Available Prisoner Places in accordance with the payment provisions set forth in the operating agreement. Subsequently, on January 8, 2003, the Prison Services notified PCG that due to operational issues it was again reducing payment to only pay for the number of beds actually occupied effective December 2, 2002 resulting in a reduction of facility revenues by approximately one-half. PCG has submitted a comprehensive plan for addressing these latest operational issues. On January 30, 2003, PCG notified the Prison Service that it considered all operational issues identified in the Prison Service Rectification Notice to be corrected and expected full payment to be restored effective from January 30, 2003. The Prison Service began an audit of the facility's operations in February 2003 and is currently considering the outcome of that audit. PCG expects full revenues to be restored effective January 30, 2003, but there can be no assurance that this will occur until the Prison Service makes its determination.

In Australia, the Department of Immigration, Multicultural and Indigenous Affairs ("DIMIA") announced its intention to enter into contract negotiations with a competitor of the Company's Australian subsidiary for the management and operation of Australia's immigration centers. DIMIA has further stated that if it is unable to reach agreement with the announced preferred bidder, it will enter into negotiations with the Company's Australian subsidiary. The Company is continuing to operate the centers under its current contract, which is due to expire on or before June 23, 2003 but may be extended by the government if negotiations are not completed with the successful tenderer. If negotiations are not successful, WCC's Australian subsidiary is the only other qualified tenderer for consideration. In 2002, the contract with

DIMIA represented approximately 10% of the Company's revenue (exclusive revenue of 50-50 joint ventures). In both 2001 and 2000, DIMIA represented approximately 11% of the Company's revenue.

TWC Merger with Group 4 FALCK

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

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

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

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

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

Leases

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

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

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

Litigation, Claims and Assessments

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

(8) Common, Preferred and Shares Repurchased and Retired

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

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

(9) Business Segment and Geographic Information

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

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

In thousands)

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

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

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

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

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

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

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

(In thousands)

Fiscal Year	**2002**	2001	2000
STATEMENT OF OPERATIONS DATA			
Revenues	**$ 195,961**	$ 153,744	$ 139,137
Operating income	**20,078**	15,277	14,950
Net income	**12,921**	9,881	8,980
BALANCE SHEET DATA			
Current assets	**$ 91,220**	$ 99,294	$ 66,382
Noncurrent assets	**304,659**	272,777	286,049
Current liabilities	**41,245**	53,082	39,451
Noncurrent liabilities	**317,407**	293,403	286,526
Shareholders' equity	**37,227**	25,586	26,454

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

(In thousands)

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

(10) Income Taxes

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

(In thousands)

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

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

(In thousands)

	2002	2001	2000
Provisions using statutory federal income tax rate	**$ 10,127**	$ 8,703	$ 7,300
State income taxes, net of federal tax benefit	**1,421**	775	692
Change in control costs	**896**	–	–
Other, net	**208**	228	360
	$ 12,652	$ 9,706	$ 8,352

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

(In thousands)

	2002	2001
Uniforms	**$ (156)**	$ (264)
Allowance for doubtful accounts	**508**	1,241
Accrued vacation	**1,023**	870
Accrued liabilities	**5,786**	4,194
	$ 7,161	$ 6,041

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

(In thousands)

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

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

(11) Earnings Per Share

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

(In thousands except per share data)

Fiscal Year	2002	2001	2000
Net Income	$ 21,501	$ 19,379	$ 16,994
Basic earnings per share:			
Weighted average shares outstanding	21,148	21,028	21,110
Per share amount	$ 1.02	$ 0.92	$ 0.81
Diluted earnings per share:			
Weighted average shares outstanding	21,148	21,028	21,110
Effect of dilutive securities:			
Employee and director stock options	216	233	141
Weighted average shares assuming dilution	21,364	21,261	21,251
Per share amount	$ 1.01	$ 0.91	$ 0.80

For fiscal 2002, options to purchase 784,600 shares of the Company's common stock with exercise prices ranging from $14.69 to $26.88 per share and expiration dates between 2006 and 2012 were outstanding at December 29, 2002, but were not included in the computation of diluted EPS because their effect would be anti-dilutive.

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

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

(12) Related Party Transactions with The Wackenhut Corporation

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

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

(In thousands)

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

General and administrative expenses represent charges for management and support services. TWC provided various general and administrative services to the Company under a Services Agreement, through which TWC provided payroll services, human resources support, tax services and information technology support services through December 31, 2002. Beginning January 1, 2003, the only services provided will be for information technology support through year-end 2004. The Company has negotiated annual rates with TWC based upon the level of service to be provided under the Services Agreement.

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

(13) Stock Options

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

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

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

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

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

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

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

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

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

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

(In thousands, except per share data)

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

(14) Retirement and Deferred Compensation Plans

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

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

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

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

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

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

The accumulated benefit obligation of $7.1 million and $4.1 million at year-end 2002 and 2001 is included in "Other liabilities" in the accompanying consolidated balance sheet. The unamortized prior service cost of $1 million is included in "Other noncurrent assets" in the accompanying consolidated financial statements and is being amortized over the estimated remaining service periods ranging from 3 to 13 years.

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

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

(15) Selected Quarterly Financial Data (Unaudited)

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

(In thousands, except per share data)

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

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

THE BOARD OF DIRECTORS AND SHAREHOLDERS
WACKENHUT CORRECTIONS CORPORATION

We have audited the accompanying consolidated balance sheet of Wackenhut Corrections Corporation as of December 29, 2002, and the related consolidated statements of income, cash flows and shareholders' equity for the year then ended. The consolidated financial statements of the Company as of December 30, 2001 and for each of the two years in the period ended December 30, 2001 were audited by other auditors who have ceased operations and whose report dated February 6, 2002, expressed an unqualified opinion on those statements. 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 audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Wackenhut Corrections Corporation as of December 29, 2002, and the consolidated results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States.

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

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

West Palm Beach, Florida
February 11, 2003

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

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

TO WACKENHUT CORRECTIONS CORPORATION:

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

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

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

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

ARTHUR ANDERSEN LLP

West Palm Beach, Florida,
February 6, 2002

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

TO THE SHAREHOLDERS OF WACKENHUT CORRECTIONS CORPORATION:

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

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

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

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

George C. Zoley
Chairman and Chief Executive Officer

Wayne H. Calabrese
Vice Chairman, President and Chief Operating Officer

John G. O'Rourke
Senior Vice President
Chief Financial Officer and Treasurer

SHAREHOLDER INFORMATION

Regional Offices

Eastern Region, USA
Terry Terrell, Director of Operations
One Park Place
621 NW 53rd Street, Suite 700
Boca Raton, Florida 33487
Phone: 561-672-2456
Fax: 561-672-2636

Central Region, USA
Reed Smith, Director of Operations
1583 Common Street, Suite 213
New Braunfels, Texas 78130
Phone: 830-625-9000
Fax: 830-626-0108

Western Region, USA
Ed Brown, Director of Operations
5963 La Place Court, Suite 105
Carlsbad, California 92008
Phone: 706-930-9500
Fax: 760-930-9550

London, England
Premier Custodial Group, LTD.
Kevin Lewis, Acting Managing Director
Berkshire Court, Western Road
Berkshire, England RG12 1RE
Phone: 441-1344-386-300
Fax: 441-1344-868-867

Sydney, Australia
Australasian Correctional Management PTY LTD.
Ross Millican, Acting Managing Director
Level 18, AXA Centre, 44 Market Street
Sydney, New South Wales 2000
Australia
Phone: 61-2-9262-6100
Fax: 61-2-9262-6005

Johannesburg, South Africa
South African Custodial Services
Stephen Korabie, Managing Director
Oak Place, Woodmead Office Park
145 Western Services Road, Sandton
Johannesburg, South Africa 2126
Phone: 27-11-802-4440
Fax: 27-11-802-4491

Other Officers

Louis V. Carrillo
Vice President, Corporate Counsel and Assistant Secretary

Ronald D. Champion
Vice President, International Services

Mathew J. DenAdel
Vice President, Pricing

Brian R. Evans
Vice President, Accounting and Controller

J. D. Williams
Vice President, Western Region

Dale W. Frick
Vice President, Mental Health Services

Donald E. Houston
Vice President, Central Region

Lauren B. Kroger
Vice President, Health Services

Charles F. Lister
Vice President, Special Operations

Ron G. Maddux
Vice President, Project Development

Amber D. Martin
Vice President, Contracts

Phillip D. Mosciski
Vice President, Design and Development

James H. Reynolds
Vice President, Human Resources

Cloid L. Shuler
Vice President, Eastern Region

Gregory M. Skeens
Vice President, Administration

Carlos Valdes-Fauli
Vice President, Design Services

David N. T. Watson
Vice President, Finance and Assistant Treasurer

Corporate and Shareholder Information

Corporate and shareholder information and a copy of the Company's Annual Report on Form 10-K, as filed with the Securites and Exchange Commission, may be obtained free of charge by contacting David N. T. Watson, Vice President, Finance and Assistant Treasurer at Wackenhut Corrections Corporation, One Park Place, 621 NW 53rd Street, Suite 700, Boca Raton, Florida 33487 or by visiting the Company's web site at www.wcc-corrections.com.

Auditors

Ernst & Young LLP
Phillips Point West Tower, Suite 1200
West Palm Beach, Florida 33401

Corporate Counsel

Akerman, Senterfitt & Eidson P.A.
One Southeast Third Avenue
28th Floor
Miami, Florida 33131-1714

Transfer Agent and Registrar

Mellon Investor Services, LLC
85 Challenger Road, Overpeck Centre
Ridgefield Park, New Jersey 07660-2104
800-635-9270
www.melloninvestor.com

Notice of Annual Meeting

The Annual Shareholder Meeting for Wackenhut Corrections Corporation (WCC) will be held at The Ritz-Carlton, 100 South Ocean Blvd., Manalapan, Florida at 9:00 a.m. on May 1, 2003.

Forward-Looking Information

This Annual Report, including the management's discussion and analysis of financial condition and results of operation, Corporate Profile and Letter to Shareholders contains "forward-looking" statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. "Forward-looking" statements are any statements that are not based on historical information. Words such as "expects," "anticipates," "intends," "plans," "believes," "seeks," "estimates," and variations of such words and similar expressions are intended to identify such forward-looking statements. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions ("Future Factors"), which are difficult to predict. Therefore, actual outcomes and results may differ materially from what is expressed or forecasted in such forward-looking statements. The Company undertakes no obligation to update publicly any forward-looking statements, whether as a result of new information, future events or otherwise. Future Factors include, but are not limited to, (1) the Company's ability to open facilities as planned, profitably manage such facilities and successfully integrate such facilities into the Company without substantial costs; (2) the instability of foreign exchange rates, exposing the Company to currency risks in Australia, the United Kingdom, New Zealand and South Africa; (3) an increase in unreimbursed labor rates; (4) the Company's ability to expand correctional services and diversify its services in the mental health services and other target markets; (5) the Company's ability to win management contracts for which it has submitted proposals and to retain existing management contracts; (6) the Company's ability to raise capital given the short-term nature of the customers' commitment to the use of the Company's facilities; (7) the Company's ability to sub-lease or coordinate the sale of the Jena, Louisiana Facility with Correctional Properties Trust ("CPV"); (8) the Company's ability to project the size and growth of the U.S. and international privatized corrections industry; (9) the Company's ability to estimate the government's level of dependency on privatization; (10) the Company's ability to create long-term earnings visibility; (11) the Company's ability to obtain future financing on acceptable terms; (12) the Company's exposure to rising general liability and workers' compensation insurance costs; (13) the exercise or disposition of the controlling position in the Company held by Group 4 Falck A/S; (14) the outcome of the litigation we are involved in with our joint venture partner in the United Kingdom, in which the joint venture partner claims to have the right to purchase our interest in the joint venture; (15) the Company's ability to effectively internalize functions and services previously outsourced to The Wackenhut Corporation; and (16) other future factors including, but not limited to, factors contained in this report and the Company's Securities and Exchange Commission filings.

Designed by Curran & Connors, Inc. / www.curran-connors.com

WORLD HEADQUARTERS

One Park Place • 621 NW 53rd Street • Suite 700
Boca Raton • Florida • 33487 • USA
Telephone 561.893.0101 800.666.5640
www.wcc-corrections.com