

Private Corrections Industry

Beds and Cons -- Changing Dynamics, Areas of Potential Growth

Investment Summary

The strength in stock prices of private corrections companies since November 2000 is, in our opinion, sustainable over the long term. Despite slowing growth of prison populations at the state level, we believe that the underlying cash flows of these firms should continue to improve, and that, relative to past trading highs, the stocks are conservatively valued.¹

Key Points:

- At the federal level, prison populations increased by 6.6% in 2000, overcrowding remains a problem, and it is expected that the federal government will continue to turn to private corrections firms for additional capacity. We are estimating the proportion of federal prisoners housed by private firms will increase from its current 10.7% of inmates, or approximately 15,600, to 15% to 18% over the next three to five years. This represents a potential increase of between 8,800 and 16,400 beds.
- One likely driver of growth at the federal level will be increased use of detention by U.S. Immigration and Naturalization Services after the September 11 terrorist attacks.
- The number of prison beds, as based on the rated capacity of private secure adult facilities worldwide, appears to have stabilized at approximately 145,000 since 1999. The industry is now focused on filling excess capacity, negotiating more profitable contracts and improving efficiency.
- The recent success that private corrections companies have had in accessing capital in the public and private markets suggests that the capital shortage this industry has endured is easing.
- The underlying drivers of prison populations have begun to trend in a direction that suggests an increase in prisoners over the next three to five years, and demand for services such as community corrections and healthcare should continue to grow.

Henry J. Coffey, Jr., CFA
 615.238.2307
 hcoffey@mlga.com

Carrington Fox
 615.238.2308
 cfox@mlga.com

¹ All stock prices in this report are as of December 31, 2001.

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Beds and Cons: Executive Summary

Investment View

The recovery in stocks of private corrections companies that began in November 2000 is, in our opinion, sustainable over the long run. Speculative building of prisons has stopped, and we are now seeing a gradual absorption of the excess prison beds created by private corrections companies during the “boom” years. In recent years, this industry has been plagued by limited access to capital; however, deal activity in the fall of 2001 suggests this situation is improving. In November 2001, **Res-Care, Inc. (RSCR -- \$8.85)** completed a private placement of \$150.0 million in senior, unsecured notes. In December, **Cornell Companies, Inc. (CRN -- \$17.65 – NYSE)** completed a \$48.3 million offering of common stock, **Corrections Corporation of America (CXW -- \$18.56 – NYSE)** rescheduled its \$269.4 million revolving line to mature in December 2002, and investors received commitments for approximately \$44 million in financing to acquire **Children’s Comprehensive Services, Inc. (acquired January 3, 2002)**.

Exhibit 1

Absolute Performance of MLGA Private Corrections Index from October 1996 to December 2001²



Source: MLGA Research and Thomson Financial

In the current environment, private corrections firms are focused on improving occupancy rates, seeking new sources of revenue, negotiating better contracts, and improving operating efficiencies. The underlying cash flows of these companies are expected to improve, and, while up from recent lows, the stocks are conservatively valued relative to past valuation highs. At its peak in March 1998, the typical private corrections company’s stock was selling at 25.0x 1998 earnings per share (EPS) and had an enterprise value³ to LTM EBITDA valuation ratio of 26.5x. Today, the group is selling at 13.3x projected 2002 EPS and with enterprise value at 8.0x LTM EBITDA. The primary risk factors facing the group are slowing/negative growth at the state level, likely concentrated dependence on the federal government for new prisoners and new prison management contracts, and the continued challenge of managing labor supply and labor cost.

² See Appendix 1 for an explanation of the MLGA Private Corrections Index.

³ Enterprise Value=Market Value of Equity + Debt - Cash.

Prison Populations

During the last ten to twelve years, most cyclical and demographic predictors of prison population trends, as discussed later in this report, have favored a decline in the U.S. prison population. Accordingly, we have seen a gradual slowing of the growth rate of the total U.S. prison population. Overcrowding at the state level, a major driver behind the previous decade's private prison-building boom, has been abating for some time; and it has only been a sharp halt in the building of new prisons that has allowed the private corrections business to slowly recover.

In many respects this is an industry with differing characteristics at the state and federal levels. During the second half of 2000, state prison populations saw their first decline in absolute numbers since 1972, and the available evidence suggests that at the state level, prison population levels should remain flat or shrink in 2001.⁴ By contrast, the federal system continues to expand at a rate of 6.6%, still faces overcrowding, and currently has two privatization contracts out for bid for a total of 6,000 beds.

Dynamics Driving Future Growth

While the investment conclusion stated previously is driven primarily by the notion that the private corrections business is going through a period of internally driven repair and improved profitability, there are several reasons to look for gains in capacity utilization by private corrections companies, positive to higher growth rates in the prison population over the next three to five years, and increased sources of revenue for private corrections companies.

1. RFPs at the federal level

The Bureau of Prisons currently has requests for proposals (RFPs) open for two remaining Criminal Alien Requirement (CAR) programs representing 6,000 prison beds in total. The federal government has not succeeded at building its way out of its current problems, and it is likely that it will increasingly turn to private corrections firms to manage its prison housing needs.

2. Shifts in demographics, the economy, and policy

The demographic group of the U.S. population most likely to be imprisoned, males age 18 to 29, has begun to grow. Unemployment rates have begun to move up for the first time since 1992. Furthermore, in the wake of the events of September 11, policy initiatives are likely to move in a direction that favors more incarceration and increased supervision of persons on probation and parole -- particularly of illegal immigrants. These are all factors positively correlated with growth in prison populations.

⁴ Bureau of Justice Statistics data for 2001 will be released in the second half of 2002.

3. Increased use of community-based solutions

Parole or probation costs approximately one-tenth what it costs to incarcerate an inmate. Community-based correctional services such as halfway houses, home detention, vocational training and counseling, and electronic monitoring offer alternatives to the high cost of incarceration and are a likely avenue for expansion among private corrections firms.

4. Rising demand for healthcare services

Consistent with the general aging of the U.S. population, the number of prisoners over age 50 is expected to increase faster than the overall prison population. This group tends to have significantly more demanding healthcare needs than the overall prison population.

Potential Beneficiaries

The greatest beneficiary of any continued absorption of prison capacity or a general mending of industry profitability could possibly be the company that has suffered the greatest financial distress in recent years and has the largest inventory of unused beds—Corrections Corp.

Cornell Companies is the largest supplier of community-based correctional facilities in the group, and **Avalon Correctional Services, Inc. (CITY -- \$1.99)** is a profitable provider focused exclusively on community corrections, with facilities in Colorado, Oklahoma, and Texas.

America Service Group Inc. (ASGR -- \$7.63) and other providers of correctional medical, psychiatric and pharmaceutical services are in the process of developing healthcare models that should reduce costs for the user while limiting risk and promoting profitability for provider firms.

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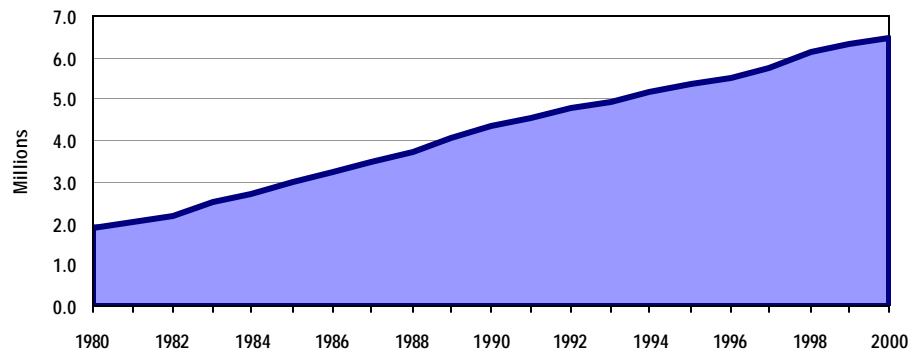
Trends in Prison Populations and Capacity

While the U.S. correctional population continues to increase at a faster rate than the total U.S. population, a closer examination of the data behind Exhibit 2 and a review of the more specific information in the exhibits that follow reveals a gradual slowing in the growth rate of the U.S. correctional population. We expect that this trend will begin to reverse itself. While 2001 and 2002 will likely prove to be years of slow growth at the state level, we believe that over the next three to five years the U.S. adult correctional population will continue to increase and growth rates should begin to expand. This conclusion is supported by the following observations:

1. The number of adult males between the ages of 18 and 29, a key demographic driving prison populations, began to increase in 1997, and the U.S. Census Bureau projects it will continue to expand.
2. The unemployment rate began to increase in November 2000 and in recent months has begun to move up sharply.
3. Future policy initiatives following the events of September 11 are expected to favor an increase in the use of incarceration and supervision to manage the U.S. correctional population.

Prison Populations, Historical Trends

Exhibit 2
U.S. Adult Correctional Population 1980-2000

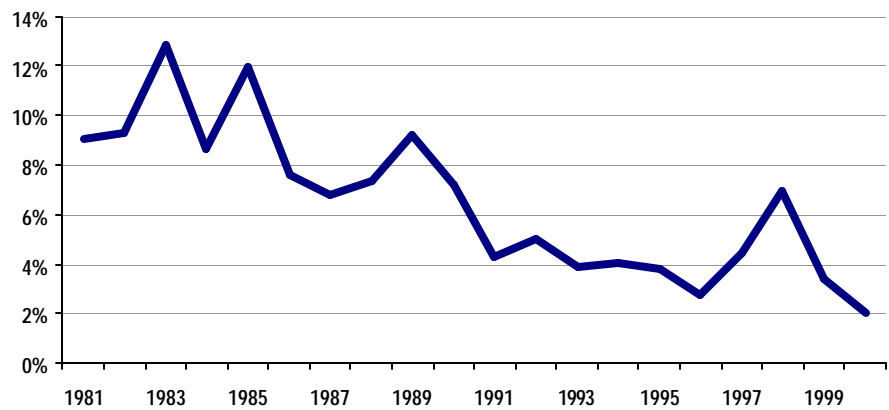


Source: Bureau of Justice Statistics

In 2000, the total U.S. correctional population (people in jails and prisons, on probation and on parole) grew by only 2.0%, half the average annual increase of 4.0% since 1990. Inmates in jail or prison increased by only 2.1%, less than half the average annual increase over the past ten years of 5.3%. One measure in 2000 favoring higher growth in prison populations was the percentage of people in custody relative to the entire correctional population. This level remained high by historical standards at 29.9%. In 1990, 26.4% of the total correctional population was in custody.⁵

⁵ Here and throughout the text, statistics related to prison populations and growth of facilities at state and federal levels are extracted from data published by the Bureau of Justice Statistics, the statistical agency of the Department of Justice. The numbers behind the tables presented in the text can be found in Exhibits 13 and 14.

Exhibit 3
Rate of Growth in U.S. Correctional Population



Source: Bureau of Justice Statistics

The slowest growth in prison population occurred at the state level, which currently accounts for approximately 60% of inmates in custody. In 2000, state prisoners in custody increased by 1.5%, significantly lower than this group's average annual growth rate from 1990 to 2000 of 5.6%. More notably, during the second half of 2000, the number of prisoners held in state prisons actually declined for the first time since 1972. In 2000, thirteen states reported a decrease in prison populations. Only five states reported an increase in prison populations of over 10%.⁶

The number of persons in federal prisons increased 6.6% in 2000, compared to the average annual growth in the last 10 years of 8.6%. While this is a slower growth rate than seen in past years, the drop was not as dramatic as that at the state level. In addition, the subset of sentenced prisoners (those with sentences of greater than one year) in federal prisons increased by 9.4% in 2000. This rate was down only slightly from the 10.2% increase in sentenced prisoners reported in 1999. Overall, federal prisoners comprise 6.9% of all inmates in custody.⁷

Impact of Demographics and Economic Variables on Prison Populations

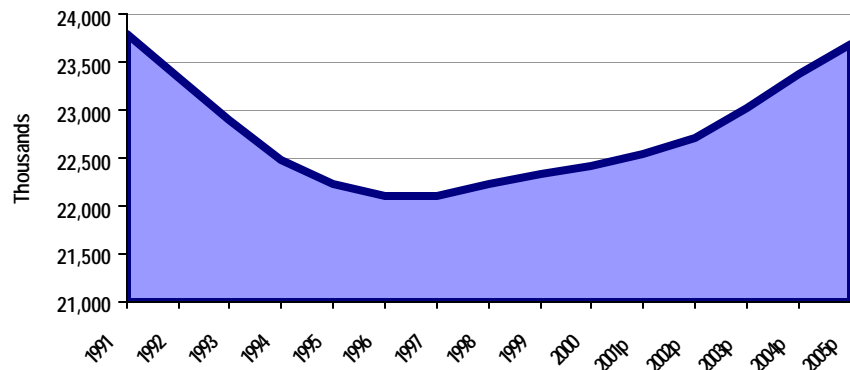
Interviews with private corrections officials and a review of related research suggest that prison population growth is driven in large part by three factors: the number of 18- to 29-year-old males in the general population, economic trends such as shifts in the unemployment rate, and the level of violent crimes (which appears to be closely tied to shifts in the economy). For much of the last five to ten years, these factors have trended in a direction that favors a slowing in the growth rate of the prison population or, as occurred at the state level, an actual decline in the number of prisoners. Recently, we have seen demographics and unemployment trend in a direction normally associated with higher future levels of prisoners and increased growth rates in this population.

⁶ "Prisoners in 2000," Bureau of Justice Statistics, August 2001.

⁷ Ibid.

In the life cycle of a career criminal/offender, 18 to 29 tends to be the age range in which a criminal is most active committing crimes and most likely to be caught, convicted, and incarcerated. The population of 18- to 29-year-old males in the U.S. fell steadily from 1991 to 1996, but began to move up gradually after that. The U.S. Census Bureau now projects a steady rise in this section of the population.

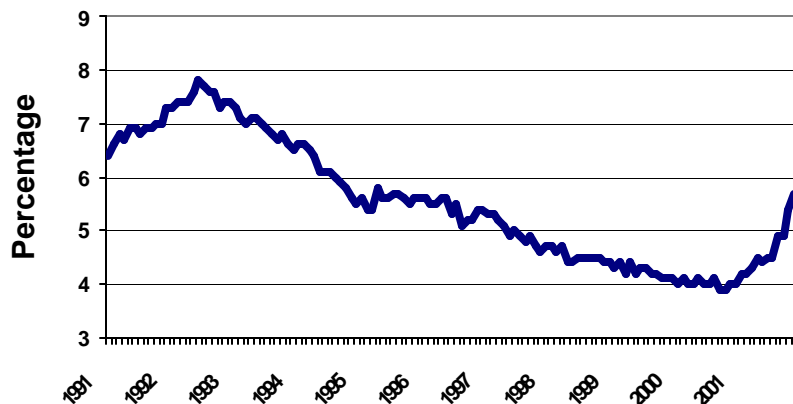
Exhibit 4
U.S. Population of Males Age 18-29



Source: U.S. Census Estimates and Projections

The unemployment rate fell steadily between June 1992 and October 2000. Beginning in November 2000, this figure began to increase, and in the summer of 2001, it began to rise sharply. Consensus opinion is that we have been in a manufacturing-based recession for over 18 months and in a general recession since March 2001. Events following September 11 are likely to deepen and lengthen the current economic slowdown.

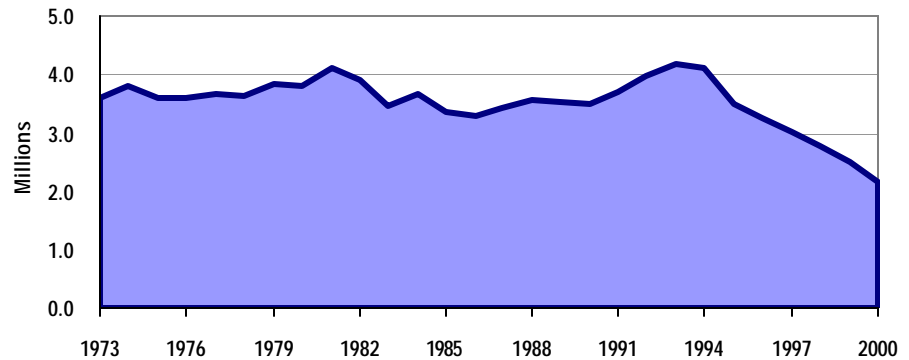
Exhibit 5
U.S. Unemployment Rate



Source: Bureau of Labor Statistics, Current Population Survey.

After rising at an annualized rate of 4.3% during the 1990-1993 period (the last recession began and ended within this window), violent crimes began to fall, and between 1993 and 2000 the total number of violent crimes reported per year fell at an annualized rate of 8.9%. Our assumption is that, as the economy continues to weaken, the number of reported violent crimes will increase, stimulating an expansion in prison population.

Exhibit 6
Reported Violent Crimes



Source: Bureau of Justice Statistics

Impact of Policy on Prison Populations

In the absence of empirical studies establishing an irrefutable relationship between incarceration and reduced crime rates, attitudes towards sentencing, incarceration, and parole will likely be driven by political sentiment and desire to cut costs. The 1980's war on crime, get-tough rules, truth-in-sentencing, "three-strikes-and-you're-out laws," and minimum sentencing laws stimulated growth in prison populations, while, court-ordered mandates to alleviate overcrowding boosted the prison privatization movement.

Prior to September 11, we would argue there was a split between policy trends at the state level, which appear to be shifting in a direction of lighter sentencing or less use of incarceration, and policy changes at the federal level, which would favor higher levels of federal prisoners. For example:

State: The State of California enacted Proposition 36 in July 2001. The law provides for first- and second-time non-violent drug offenders to receive substance abuse treatment instead of incarceration. New York legislators have also been reviewing proposals to relax the 1973 Rockefeller drug laws, which impose mandatory prison sentencing for the sale or possession of narcotics.^{8,9}

Federal: Policy initiatives have federalized certain crimes that were once the jurisdiction of the states. Drug crimes, in particular, now account for approximately 60% of federal inmates.¹⁰ Furthermore, the U.S. Sentencing Commission presented guidelines to Congress in 2001 that increased sentences on white-collar crimes such as insider trading and high-dollar fraud.¹¹

⁸ "California Drug Program Begins, Despite Los Angeles's Skepticism," *New York Times*, July 3, 2001.

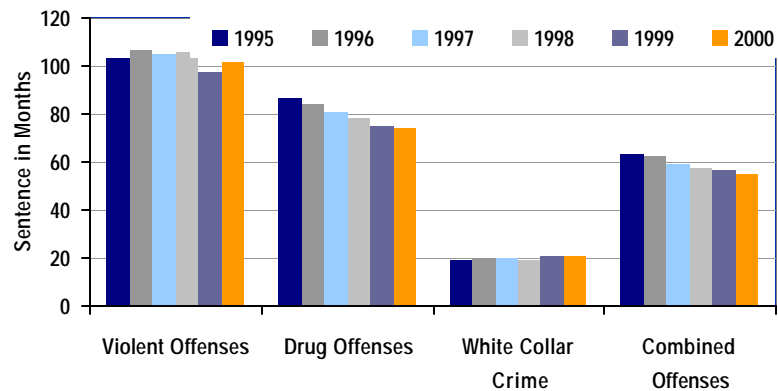
⁹ Richard Perez-Pena, "Pataki Offers Revised Plan On Drugs," *New York Times*, July 24, 2001.

¹⁰ "Prisoners in 2000," Bureau of Justice Statistics, August 2001.

¹¹ United States Sentencing Commission.

The decline in average imprisonment time is illustrated in Exhibit 7. With the exception of white-collar crimes, recent shifts in policy have favored shorter sentences. After September 11, we assume federal policies in particular will favor more incarceration and supervision of the correctional population, with particular focus on illegal immigrant populations. For example, in response to the September 11 attacks, Attorney General John Ashcroft has already used broad discretion to make the immigration process tougher. The INS now has the right to override immigration judges' orders releasing September 11 detainees on bonds, and as of December 2001, 563 of those detainees in relation to the terrorist attacks were in custody on immigration charges.¹²

Exhibit 7
Length of Average Imprisonment



Source: U.S. Sentencing Commission

Systemwide Prison Capacity

Statistics published by the Bureau of Justice suggest that overcrowding at the state level has been declining since 1992/1993 but that overcrowding is still an issue at the federal level. Based on population housed as a percentage of highest capacity in 2000, state prisons were at 100% of capacity, and federal prisons were operating at 131% of capacity.¹³

A Note about Capacity Figures

While capacity is the measure commonly used in assessing the number of prisoners a system can hold and its degree of over/under crowding, the term varies in its usage and should be used as a helpful barometer rather than as an absolute predictor of building needs and demand for prison beds.

Strictly speaking, there are three measures of capacity: rated, operational and design. Rated capacity is the number of beds or inmates assigned by a rating official to an institution. Operational capacity is the number of inmates that can be accommodated by the existing staff, programs and services at a facility. Design capacity is the number of inmates that planners or architects intend for the facility upon construction. Different states report capacity based on different measures, and the Bureau of Justice Statistics reports the highest and lowest of all the figures presented. In 2000, the Bureau of Justice Statistics reported total capacity at the state level of 1.151 million according

¹² Lisa Getter, "Response to Terror; Freedom Elusive for Refugees Fleeing to U.S.," *The Los Angeles Times*, December 31, 2001

¹³ The concept of capacity is discussed in greater detail later.

to the highest capacity numbers provided and 1.001 million when the lower capacity numbers were used. Depending on which of these figures is used as the denominator to determine a prison system's population as a percentage of its capacity, the prison system can appear to be more stretched than it is, or vice versa.¹⁴

A recent trend in New York illustrates the potential discrepancy between capacity figures reported and space needs in prison systems. In 2000, New York's state prisons were operating at 105% of design capacity and 127% of operational capacity. While these figures would lead an observer to think the state was clamoring for new facilities, the opposite is true. The Department of Correctional Services, which placed more inmates and employees in existing facilities in the 1990's to accommodate growing populations – and thereby raised operational and rated capacity -- has frozen hiring amid a projected 9% decrease in the state inmate population.¹⁵

Meanwhile, Tennessee, which operates at less than 100% of both rated and operational capacity, is already considering the addition of new facilities to meet projected demands for housing inmates.

State Prisons

Between midyear 1990 and midyear 2000, crowding was alleviated in 32 states as state prisons added 351 facilities and 528,000 beds for an 81% increase in bed count.¹⁶ Based on the various measures of capacity, state prisons now operate at between 100% and 115% of capacity, while many states are reporting excess capacity in their systems. Slowing prison populations, coupled with overbuilding are having immediate effect in corrections facilities across the private and public sector. New York and Mississippi, for example, are reshuffling inmates and employees as the expanding capacity and overbuilding have left their state facilities with empty beds. In Mississippi, private prison companies even lobbied the state to pay them for empty beds, or "ghost inmates," to defray prison firms' losses. The same empty bed phenomenon is affecting other states such as South Carolina, Michigan and Minnesota.¹⁷ The New York State Department of Corrections has frozen hiring across the state to compensate for the drop in inmate populations.¹⁸ Wisconsin began to address overcrowding in the late 1990's by sending prisoners out of state to various federal and private facilities. Amid a nationwide trend of declining state prison populations, Wisconsin is now taking the opportunity to return those prisoners to in-state facilities.¹⁹

¹⁴ "Prisoners in 2000," Bureau of Justice Statistics, August 2001.

¹⁵ David Rohde "A Growth Industry Cools as New York Prisons Thin," *The New York Times*, August 21, 2001.

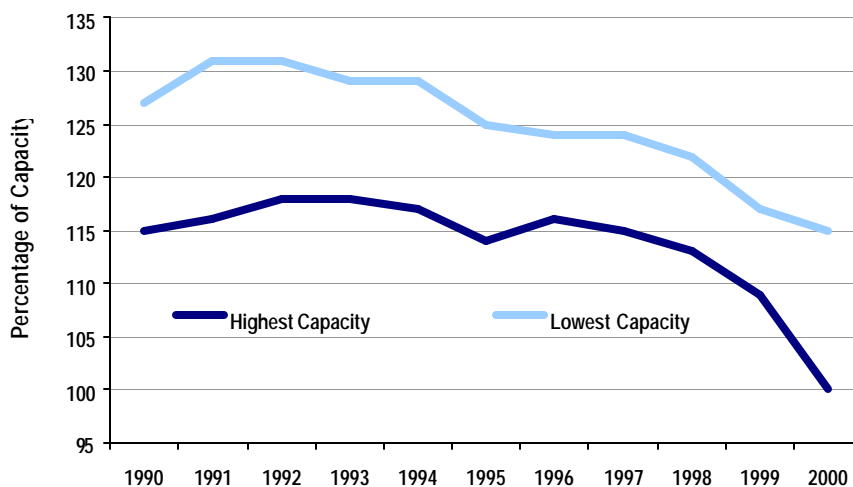
¹⁶ "Prisoners in 2000," Bureau of Justice Statistics, August 2001.

¹⁷ Bryan Gruley, "Why Did Mississippi Agree to Pay for Cells for 'Ghost Inmates'?" *Wall Street Journal*, September 6, 2001.

¹⁸ David Rohde, "A Growth Industry Cools as New York Prisons Thin," *The New York Times*, August 21, 2001.

¹⁹ Nicholas Kulish, "Homeward Bound: States That Exported Inmates in 1990's Have Second Thoughts Now," *The Wall Street Journal*, December 20, 2001.

Exhibit 8
State Prison Populations as Percentage of Capacity



Source: Bureau of Justice Statistics

Exhibit 9
Most and Least Crowded State Prison Systems as of December 31, 2000

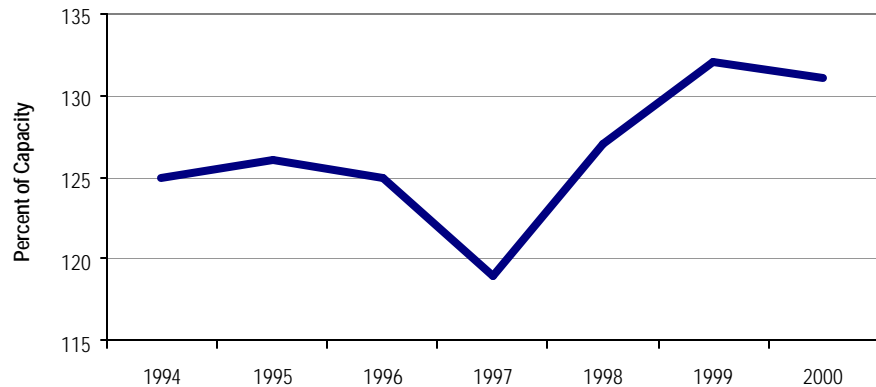
Most Crowded Systems	Statewide Pop. as % of Prison Capacity		Least Crowded Systems	Statewide Pop. as % of Prison Capacity	
	Lowest Capacity	Highest Capacity		Lowest Capacity	Highest Capacity
California	194	101	District of Columbia	83	83
Montana	175	112	Georgia	90	90
Illinois	161	137	Virginia	91	91
Nebraska	161	129	Utah	91	86
Washington	158	110	Rhode Island	92	88
Hawaii	145	106	New Mexico	93	92
Pennsylvania	143	111	South Carolina	94	89
New Jersey	141	141	Oklahoma	95	95
Wisconsin	131	131	Kansas	95	95
New York	127	105	Missouri	96	96

Source: Bureau of Justice Statistics

Federal Prisons

At the federal level, we are seeing a different picture. In many respects, the federal system looks more like the state system of the early 1990's. Data published by the Bureau of Justice Statistics suggest that federal prisons have been operating significantly above capacity for some time and, as the chart below indicates, the situation deteriorated between 1997 and 1999.

Exhibit 10
Federal Prison Population as a Percentage of Rated Capacity

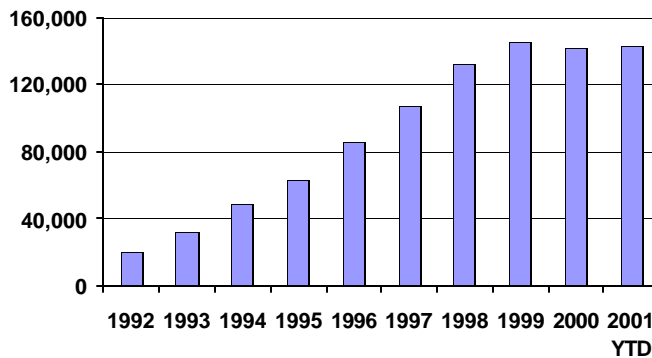


Source: Bureau of Justice Statistics

Private Prisons: Bed Count is Stabilizing

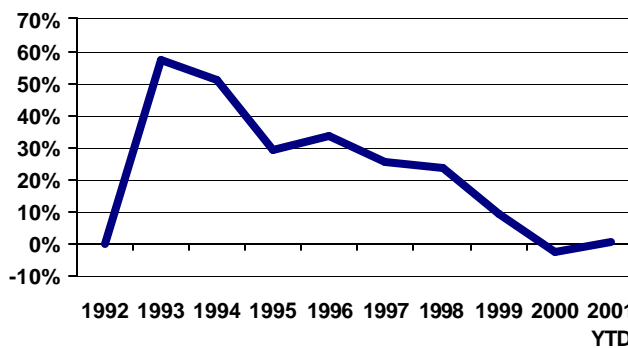
The number of private sector prison beds in secure adult facilities worldwide has leveled off, and even declined slightly, after a number of years of double-digit growth. Between 1992 and 1999, private corrections companies increased bed count (based on rated capacity) at an annualized rate of 32.1%, increasing the total supply of private prison beds worldwide to 145,000. As of September 2001, the number of private beds has declined to approximately 142,500, 83.5% of which are in the U.S. While oversupply has broadly affected the private prison firms, the impact of overbuilding was particularly difficult on companies such as Corrections Corp., which saw occupancy levels fall to 84.8% while the company had approximately 9,500 empty beds. After 1999, speculative building of new facilities stopped.

Exhibit 11
Private Corrections "Beds" – Rated Capacity



Source: Private Adult Correctional Facility Census, by Charles W. Thomas, September 4, 2001.

Exhibit 12
Year-Over-Year Change in Private Corrections "Beds"



Source: Private Adult Correctional Facility Census, by Charles W. Thomas, September 4, 2001.

Most policy makers in the corrections field broadly accept privatization as a working solution to managing prison populations. All three federal agencies responsible for housing inmates, Bureau of Prisons, Immigration and Naturalization Services and U.S. Marshals Service, as well as 31 state governments, currently contract some portion of their correctional function to private firms; and 42 states have passed laws allowing privatization of their prison systems.²⁰ In 2000, private prisons held 5.8% of state prisoners and 10.7% of federal prisoners for a total of 87,369 inmates.²¹ While the states in aggregate are unlikely to seek out additional private beds until an increased need emerges, it is clear that the federal system will continue to turn in this direction to address its growing need for additional prison beds.

Openness to private contracting has stemmed from government's eagerness to cut costs and the time required to build facilities. Comments from industry insiders interviewed suggest that private prison builders can more efficiently bring new facilities on line, with time savings of 50% and typical cost savings between 15% and 25%.²² Some studies have shown encouraging trends of lower recidivism rates among those released from private prisons. Others have demonstrated the benefits of privatizing correctional healthcare functions. And while side-by-side studies of private and public prisons fail to demonstrate the once-promised 20% savings, the same literature implies that the mere entrance of private competition into the corrections arena has spurred greater efficiencies among all operators -- private and public -- improving cost structures across the board.

²⁰ From information on the Corrections Corp. web site.

²¹ Bureau of Justice Statistics, "Prisoners in 2000," August 2001.

²² Charles W. Thomas, "Should Jails and Prisons be Privatized," scheduled for publication by Roxbury Publishing Company in 2002.

Exhibit 13
U.S. Correctional Populations

Year	Total Correctional Population		Total in Custody		Total in Custody/Correctional Population	Probation ¹		Parole ²	
	#	Change	#	Change		#	Change	#	Change
1980	1,842,100		503,586		27.3%	1,118,097		220,438	
1981	2,008,300	9.0%	556,814	10.6%	27.7%	1,225,934	9.6%	225,539	2.3%
1982	2,194,400	9.3%	612,496	10.0%	27.9%	1,357,264	10.7%	224,604	-0.4%
1983	2,476,800	12.9%	647,449	5.7%	26.1%	1,582,947	16.6%	246,440	9.7%
1984	2,690,700	8.6%	682,764	5.5%	25.4%	1,740,948	10.0%	266,992	8.3%
1985	3,013,100	12.0%	744,208	9.0%	24.7%	1,968,712	13.1%	300,203	12.4%
1986	3,241,100	7.6%	800,880	7.6%	24.7%	2,114,621	7.4%	325,638	8.5%
1987	3,461,400	6.8%	858,687	7.2%	24.8%	2,247,158	6.3%	355,505	9.2%
1988	3,715,800	7.3%	951,335	10.8%	25.6%	2,356,483	4.9%	407,977	14.8%
1989	4,057,800	9.2%	1,078,920	13.4%	26.6%	2,522,125	7.0%	456,803	12.0%
1990	4,350,300	7.2%	1,148,702	6.5%	26.4%	2,670,234	5.9%	531,407	16.3%
1991	4,537,900	4.3%	1,219,014	6.1%	26.9%	2,728,472	2.2%	590,442	11.1%
1992	4,765,400	5.0%	1,295,150	6.2%	27.2%	2,811,611	3.0%	658,601	11.5%
1993	4,948,300	3.8%	1,369,185	5.7%	27.7%	2,903,061	3.3%	676,100	2.7%
1994	5,148,000	4.0%	1,476,621	7.8%	28.7%	2,981,022	2.7%	690,371	2.1%
1995	5,342,900	3.8%	1,585,586	7.4%	29.7%	3,077,861	3.2%	679,421	-1.6%
1996	5,490,700	2.8%	1,646,020	3.8%	30.0%	3,164,996	2.8%	679,733	0.0%
1997	5,734,900	4.4%	1,743,643	5.9%	30.4%	3,296,513	4.2%	694,787	2.2%
1998	6,134,200	7.0%	1,816,931	4.2%	29.6%	3,670,441	11.3%	696,385	0.2%
1999	6,340,800	3.4%	1,893,115	4.2%	29.9%	3,779,922	3.0%	714,457	2.6%
2000	6,467,200	2.0%	1,933,503	2.1%	29.9%	3,839,532	1.6%	725,527	1.5%
5-yr CAGR	3.9%		4.0%			4.5%		1.3%	
10-yr CAGR	4.0%		5.3%			3.7%		3.2%	

Totals for the years 1998 through 2000 exclude probationers in jail or in prison. For this reason, the sum of persons in custody, on probation and in jail appears greater than the total correctional population for 1998, 1999 and 2000.

¹ Probation refers to a community-based sentence in lieu of a sentence in a secure facility.

² Parole refers to a community-based sentence served after release from a secure facility.

Source: Bureau of Justice Statistics

Exhibit 14
Cyclical Drivers of Correctional Populations

Year	Total Violent Crime		Population Males 18-29	Population Males 50-54	Unemployment Rate
	#	Change	(000's)	(000's)	%
1980	3,794,400				7.1
1981	4,101,700	8.1%			7.6
1982	3,926,200	-4.3%			9.7
1983	3,455,500	-12.0%			9.6
1984	3,683,300	6.6%			7.5
1985	3,358,400	-8.8%			7.2
1986	3,284,700	-2.2%			7.0
1987	3,424,900	4.3%			6.2
1988	3,563,000	4.0%			5.5
1989	3,533,700	-0.8%			5.3
1990	3,500,600	-0.9%	24,337	5,521	5.6
1991	3,712,000	6.0%	23,805	5,658	6.8
1992	3,987,000	7.4%	23,336	5,856	7.5
1993	4,191,000	5.1%	22,909	6,187	6.9
1994	4,116,000	-1.8%	22,486	6,413	6.1
1995	3,493,500	-15.1%	22,237	6,629	5.6
1996	3,260,000	-6.7%	22,104	6,766	5.4
1997	3,039,000	-6.8%	22,111	7,373	4.9
1998	2,776,800	-8.6%	22,237	7,646	4.5
1999	2,529,900	-8.9%	22,331	7,998	4.2
2000	2,186,700	-13.6%	22,427	8,432	4.0
5-yr CAGR	-8.9%		0.2%	4.9%	
10-yr CAGR	-4.6%		-0.8%	4.3%	

Source: Bureau of Justice Statistics, U.S. Census, and Bureau of Labor Statistics

AREAS FOR POTENTIAL GROWTH

Many of the underlying demographic, economic, and policy initiatives that impact prison population levels are starting to shift in a direction that should favor increased prison population growth over the next three to five years. In addition, we have identified four areas of activity likely to stimulate demand for privatization or new sources of revenue for private corrections companies.

RFPs at the Federal Level

Overcrowding at federal facilities has increased in recent years, leaving the system unprepared to absorb new inmates. Our assessment is that, while we are not likely to see a wholesale privatization of this system, the federal government will continue to be a source of new contracts for the private corrections industry. The available information on expected growth rates of the number of federal prisoners housed by private firms leads us to estimate that it will increase from 10.7% of federal inmates to 15% to 18% over the next three to five years.

To date, the federal system has not been able to “build” its way into a fix. U.S. corrections agencies, including the Bureau of Prisons, Immigration and Naturalization Services, and the U.S. Marshals Service have invested \$5 billion in new prison construction over the last decade. The federal system has readily turned to private firms for the construction and management of a portion of those corrections facilities. The federal system currently holds 12,454 inmates in private prisons, a number expected to increase to 20,500 in fiscal year 2002.²³ President Bush’s budget for fiscal year 2002 allocates nearly \$1 billion in new funding for the activation of newly constructed federal prisons, for prison construction and modernization, and for contract bed space.²⁴

The Bureau of Prisons currently has requests for proposals open for two Criminal Alien Requirement programs. These programs, known as CAR II and CAR III, are part of a Bureau initiative to expand low-security criminal alien housing, and they are open to private corrections companies. The Bureau awarded the first of three CAR contracts, for 3,316 beds, to Corrections Corp. and is expected to award CAR II, for 1,500 beds, as early as the first quarter of 2002. The first of the CAR awards included two facilities with ten-year contracts, assuming all options are renewed, with potential revenue of \$760 million if they are fully exercised.²⁵

²³ Interview with Joe Summerill, Piliero, Mazza & Pargament.

²⁴ Office of Management and Budget.

²⁵ From information on the Corrections Corp. web site.

At present, the criminal alien programs are the only new federal contracts out for bid to private corrections companies. Corrections Corp. was awarded CAR I and has proposed the use of one of its mothballed Georgia facilities for CAR II. Terms of CAR I were very workable and included a “take-or-pay” floor supporting a 95% occupancy rate.

Exhibit 15
RFPs for Criminal Alien Requirement (CAR) Programs

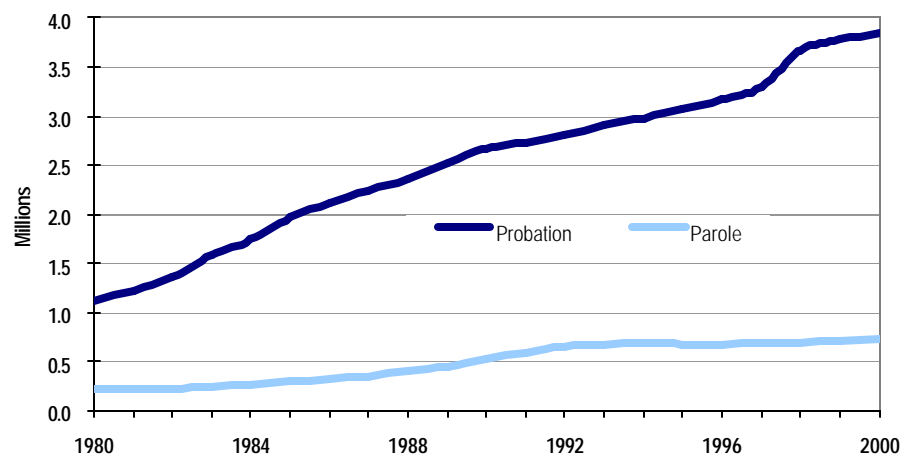
Program	Locations	Beds	Award
CAR I	California	2,304	Corrections Corp. of America
	New Mexico	1,012	
CAR II	Georgia, Florida or Michigan	1,500	TBA
CAR III	California or Arizona	4,500	TBA

Source: Bureau of Prisons.

Community Corrections

Over the last five years, the number of persons on probation has increased at an annualized rate modestly faster than the overall correctional population (3.9% vs. 3.3%). In 2000, approximately two-thirds of the adults under correctional supervision were on parole (completing a community-based sentence after leaving a secure facility) or on probation (serving a community-based sentence in lieu of a sentence in a secure facility). In 2001, an estimated 585,000 offenders will be released into the community with a need for transitional services such as halfway houses.²⁶ Since supervising an offender on parole costs about one-tenth the cost of incarcerating an inmate,²⁷ the attractiveness of this solution is apparent.

Exhibit 16
U.S. Probation and Parole Populations



Source: Bureau of Justice Statistics

²⁶ From information on the Avalon Correctional Services web site.

²⁷ Joan Petersilia, “When Prisoners Return to the Community: Political, Economic and Social Consequences,” *Sentencing & Corrections*, U.S. Department of Justice, November 2000.

While generally funded by state corrections agencies, community correctional services such as halfway houses, day prisons and home arrest supervision are operated in large part by a fractured array of private organizations. The Salvation Army and Volunteers of America charities claim a significant share of the market. Avalon Correctional Services is focused exclusively on this sector, and Cornell Companies dedicates approximately 20% of its service capacity to non-residential community-based corrections.²⁸ **Correctional Services Corporation (CSCQ -- \$1.99)** is increasingly focused on educational programs for community-based corrections. Since community corrections facilities must necessarily be located near urban centers where inmates can be transported easily to work, it is difficult to find properly zoned sites, and any expansion by the public companies into this niche is likely to be driven more by acquisitions than by opening new locations.

Healthcare

An estimated \$4.5 billion is spent on correctional healthcare annually,²⁹ and some projections show the sector rising to \$6.5 billion by 2005.³⁰ Nearly one-third of state inmates and a quarter of federal inmates have some type of physical impairment or mental condition, and one in four prisoners suffers some type of injury after admission.³¹ Between 1995 and 1999, the portion of the prison population diagnosed with HIV fluctuated between 2.1% and 2.3%, and the confirmed rate of AIDS cases in state and federal prisons was five times that of the general U.S. population.³²

The aging of the general U.S. population as reflected in prisons will complicate matters of mental and physical healthcare. Given the rougher lifestyles of offenders, a 45-year-old inmate is generally considered to be of comparable health condition to a 55-year-old non-inmate. Accordingly, the industry broadly defines "elderly" inmates as 50+ in age. The cost of healthcare for elderly inmates can be as much as three times that of younger inmates.³³ As correctional systems attempt to deal with the mounting elderly population of inmates, some observers predict the development of specialized facilities or programs dedicated to this sub-segment of the prison population.

²⁸ Cornell Companies, Annual Report 2000.

²⁹ From information on America Service Group web site.

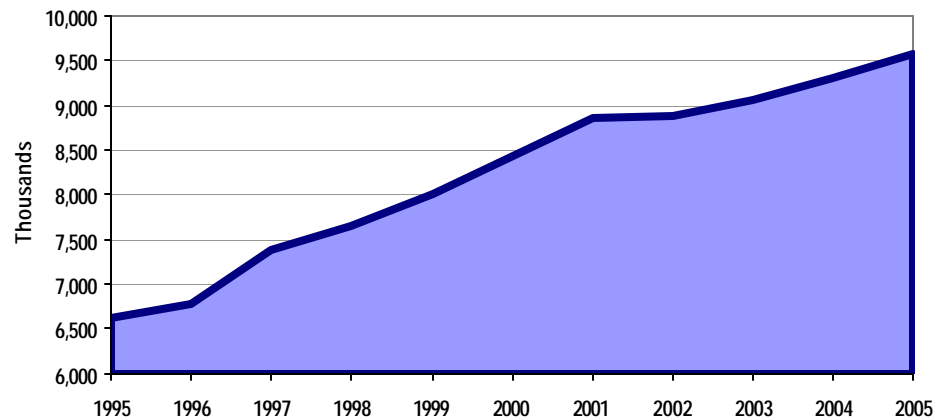
³⁰ "Healthcare Behind Bars," *Modern Healthcare*, June 19, 2000.

³¹ "Medical Problems of Inmates, 1997," Bureau of Justice Statistics Special Report, January 2001.

³² "HIV in Prisons and Jails, 1999," Bureau of Justice Statistics, July 2001.

³³ Catherine C. McVey, "Coordinating Effective Health and Mental Health Continuity of Care," *Corrections Today*, American Correctional Association, August 2001.

Exhibit 17
U.S. Population of Males Age 50-54



Source: U.S. Census Estimates and Projections

Approximately one-third of correctional health services are outsourced to private operators. America Service Group, based in Brentwood, TN, is the only publicly held firm dedicated to correctional healthcare. Other leaders include three privately held providers—**Correctional Medical Services** in St. Louis, **Wexford Health Sources** in Pittsburgh, and **Correctional Healthcare Management** in Littleton, CO.³⁴ Healthcare is a highly expensive proposition for most correctional facilities, and it is expected that correctional companies will increasingly focus on this as a possible service offering and area of growth. Corrections Corp., for example, has recently taken healthcare functions back in-house after contracting services to America Service Group. The Bureau of Prisons is currently running an experimental outsourced program with the University of Texas, and depending on the results of this trial, the Bureau of Prisons could be expected to rely more on private contracts in the future.³⁵

Mental Healthcare

One in every eight state prisoners received some form of mental health therapy or counseling in 2000, and 16.2% of state prisoners were mentally ill. Mental health services are provided in approximately 71% of state prisons, and 155 facilities specialize in mental health and psychiatric confinement.³⁶ The most common forms of mental health treatment in state confinement facilities were therapy or counseling and psychotropic medications. **Wackenhut Corrections Corporation (WHC -- \$13.86 -- NYSE)** opened its South Florida Psychiatric Hospital in 2000.

³⁴ Ibid.

³⁵ Interview with Mike Janus, Bureau of Prisons, Chief of Privatization Management.

³⁶ Bureau of Justice Statistics, "Mental Health Treatment in State Prisons, 2000," July 2001.

Inmate and Correctional Employee Training Programs

Training of incarcerated inmates has shown the potential to reduce recidivism by as much as 20%.³⁷ Seventy-five percent of states have waiting lists for programs such as academic, vocational and life skills training.³⁸ The President's budget for 2002 includes \$5 million to pilot faith-based pre-release programs at four federal prisons with the aim of reducing recidivism,³⁹ and New York State has instituted a program that allows non-violent prisoners who receive GED or vocational training to be considered for early parole.⁴⁰

A fractured array of software and training program providers are marketing to the corrections industry with products designed to respond to this opportunity. The list includes many public and private firms such as **Little Planet Learning, Inc.**, **Plato Learning, Inc. (TUTR -- \$16.61)**, and **Steck-Vaughn** (a division of education publisher Harcourt, Inc.).

Meanwhile, correctional firms such as Correctional Services Corporation are expanding into substance abuse education and other programs as an avenue for growth. So far, no firm has established itself as a clear market leader, though state corrections departments say they are "flooded" with proposals from various companies. Corrections Corp. has stated its own interest in entering this market as a provider of programs and training products.

The correctional market for training and distance learning extends beyond inmates to prison employees, who must keep up with new processes and professional requirements. The National Institute of Corrections is piloting eLearning initiatives for continuing education in the corrections workforce.⁴¹

³⁷ Sandy Cutshall, "Teaching Hope Behind Bars," *Techniques*, February 2001.

³⁸ *Ibid.*

³⁹ Office of Management and Budget.

⁴⁰ David Rohde, "After Long Climb, Prison Population Falls in New York," *New York Times*, February 2, 2001.

⁴¹ Robert M. Brown, Leslie LeMaster, Steve Swisher, "Training the Correctional Work Force of Today and Tomorrow," *Corrections Today*, June 2000.

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CAPITAL MARKETS

Stock Performance – Mount Everest

Like so many other sectors, the private corrections stocks had their own Mount Everest. A period of gradual acceptance and modest interest by investors (a plateau) was followed by a few days at base camp, then by a period of rapid stock price appreciation and broad interest by investors and investment bankers alike. Unfortunately, the trip back down was sharp and quick. This group's aggressive climb began in February 1993. Between then and March 1998, the most recent peak of MLGA's Private Corrections Index, the index increased by 1,091%. Meanwhile, the stock price of Corrections Corp.,⁴² the industry's largest provider and bell-weather company, increased by 1,850%, and, at its July 1997 peak, its enterprise value increased to approximately \$3.5 billion.

The private corrections group established two distinct peaks in price and valuation—May 1996 and March 1998. In March 1998, the typical private corrections company's stock was selling at 25.0x calendar 1998 EPS and had an enterprise value to LTM EBITDA valuation ratio of 26.5x.

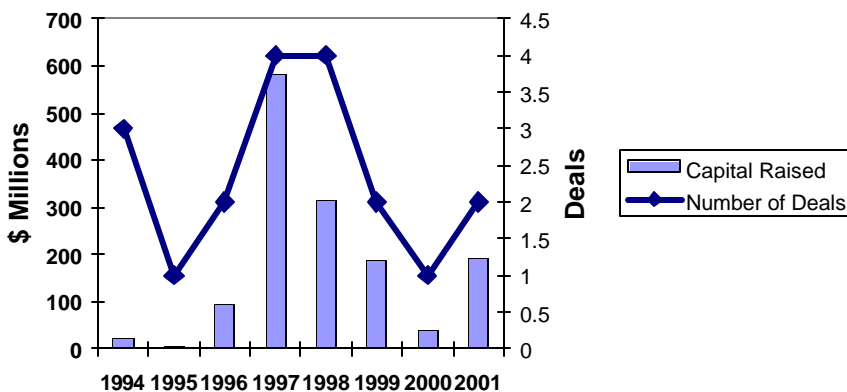
The rout that followed occurred nearly twice as fast as the rally that preceded it. It took 62 months for this group to rally to its final peak and 32 months for the stocks to reach their November 2000 lows. The group's woes were simple to analyze — too much overbuilding, slowing prison growth and slowing demand for private prisons. In 2000, the industry's biggest success, Corrections Corp., came close to becoming its greatest failure. The group went from being covered by eight to ten different securities firms to one lone analyst.

Capital Resources

Beginning in 1994, the capital markets became increasingly comfortable with this industry, and during the rally four companies completed initial public offerings. In 1997 and 1998, the industry completed eight separate public debt or equity offerings, issuing \$898.2 million in new capital. Towards the end of 1998 and into 1999, public markets became less receptive to this group, and between 1998 and the present we have seen a number of companies bump up against their credit facilities, alter plans due to lack of capital, and in a few cases struggle with severe liquidity problems. Between year-end 1998 and September 2001, the median level of funded debt to EBITDA among the ten companies analyzed by MLGA increased from 1.6x to 3.5x (debt growing faster than operating cash flows). Median working capital levels fell from 18% of assets to 8%, and equity as a percentage of total capital declined from 61% to 53%.

⁴² At the time a prison-owning C-corporation as differentiated from the later REIT.

Exhibit 18
Capital Raised by Private Corrections Firms



Source: Thomson Financial

In recent months we have seen signs that the capital markets' receptivity to this group is improving. In November 2001, Res-Care completed an offering of \$150.0 million in senior, unsecured notes. In December, Cornell Companies completed a \$48.3 million offering of common stock, Corrections Corp. rescheduled its \$269.4 million revolving line to mature in December 2002, and investors received commitments for approximately \$44 million to acquire Children's Comprehensive Services in a merger that was completed January 3, 2002.

Valuation and Recent Performance

The typical private corrections company is selling with an enterprise value to LTM EBITDA valuation ratio of 8.0x, and, based on available consensus estimates, is selling at 13.3x 2002 estimated EPS. The typical company in the group is currently selling at a modest premium to book value.

Between November 30, 2000 and December 31, 2001, the stocks in the MLGA Private Corrections Index appreciated 133%. The largest gain was attributable to the company suffering the most during this period, Corrections Corp., which appreciated 395%, followed by Cornell, which appreciated 334% during the period. America Service Group reported a significant gain in earnings in 2000, only to end up reporting a loss during the first nine months of 2001 of \$3.28 per share. America Service Group's stock has fallen from a peak of \$29.00 on December 20, 2000 to its current value.

 Exhibit 20
 Stock Performance

Company	Price		Change
	Nov. 30, 2000	Dec. 31, 2001	
Corrections Corporation of America	\$3.75	\$18.56	395%
Cornell Companies	4.06	17.65	334%
Ramsay Youth Services	1.16	4.03	247%
Wackenhut Corrections	6.63	13.86	109%
Res-Care	4.34	8.85	104%
Correctional Properties Trust	9.13	16.90	85%
Avalon Correctional Services	1.09	1.99	82%
Children's Comprehensive Services	3.38	5.96	77%
Correctional Services Corporation	2.44	1.99	-18%
America Service Group	22.75	7.63	-66%
MLGA Prison Management Index	137.50	319.68	133%

Source: Thomson Financial

CONCLUSION

Having suffered as a consequence of over-expansion coupled with slowing growth in prison populations, private corrections firms appear to be embarking on a course of absorption of excess capacity, expanding receptivity among investors and the capital markets, and improving profitability. Federal prisons are reporting higher levels of overcrowding, and the federal government is expected to continue to turn to the private sector to address its needs. The focus of the industry is no longer on building new prisons, but on improving occupancy, negotiating better contracts, and enhancing operating efficiency. Relative to past highs, valuations are statistically conservative. Cash flows are expected to improve, and the rally underway since last November in these stocks is viewed as sustainable over the long run.

Demographic and economic externals are trending in a direction that, over a three- to five-year period, could result in an increase in the growth rate of the U.S. prison population. In addition, in the more cautious and conservative climate since September 11, new policy initiatives are likely to favor increased incarceration and supervision of released prisoners, particularly among illegal immigrant populations.

The primary risk factors facing the group are slowing/negative growth at the state level and a resulting decrease in demand for private prisons to supplement capacity, likely concentrated dependence on the federal government for new prisoners and new prison management contracts, and the continued challenge of managing labor supply and labor cost.

APPENDIX 1: MLGA PRIVATE CORRECTIONS INDEX

The MLGA Private Corrections Index comprises ten companies in the private corrections industry and calculates the average monthly change in the stock price from the date of each initial public offering. The index is measured off a base of 100. As corrections companies entered or exited the public markets, they were added to or deleted from the index. The table below lists the companies on the index and the date they were entered or deleted.

Exhibit 21
Composition of MLGA Private Corrections Index

Company	Ticker	Entered	Deleted
America Service Group	ASGR	Nov-91	
Avalon Correctional Services	CITY	Jun-91	
Children's Comprehensive Services	KIDS	Jul-87	
Cornell Companies	CRN	Oct-96	
Correctional Properties Trust	CPV	Apr-98	
Correctional Services Corporation	CSCQ	Feb-94	
Corrections Corporation of America (New)	CXW	Jul-97	
Corrections Corporation of America	CCA	Oct-86	Dec-98
Res-Care	RSCR	Dec-92	
Wackenhut Corrections	WHC	Jul-94	

Source: Thomson Financial

Exhibit 22
Absolute Performance of MLGA Private Corrections Index



Source: MLGA Research and Thomson Financial

APPENDIX 2: COMPANY PROFILES

In the pages that follow, we profile the major publicly traded private corrections companies and their historical results.

America Service Group Inc.

Price as of 12/31/01

\$7.63

Ticker Symbol

ASGR**Henry J. Coffey, Jr., CFA**

615.238.2307

hcoffey@mlga.com

Carrington Fox

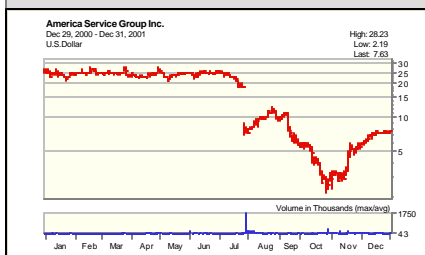
615.238.2308

cfox@mlga.com

Key Data

Market Cap (mm)	\$41.4
52-Week Range	\$2.19-\$28.23
Shares Outstanding (mm)	5.4
Estimated Float	64.1%
Insider Ownership	35.9%
Institutional Holdings	55.5%
Average Daily Volume	40,572
Indicated Dividend	\$0.00
Dividend Yield	0.0%
Total Enterprise Value (TEV) (mm)	\$102.8

Stock Price Performance



Source: FactSet

Company Description

Based in Brentwood, TN, America Service Group provides managed healthcare and pharmaceuticals to inmates. Incorporated in 1990 as a holding company for Prison Health Services (PHS), the company has grown through the acquisition of EMSA Correctional Care and EMSA Military Services, Correctional Health Services (CHS), Correctional Physician Services (CPS) and Secure Pharmacy Plus (SPP). In 2000, the company generated revenues of \$381.9 million through 130 contracts. America Service Group contracts with local, county, and state governments to provide healthcare (regular physical, dental screening and psychiatric care) to inmates and military personnel on cost-plus and fixed-fee bases. In 2000, America Service Group held major contracts with the State of Pennsylvania (11.9% of revenues) and the State of Maryland (8.3% of revenues). The company's SPP subsidiary is the largest distributor of pharmaceuticals and medical supplies to the prison market. The company has grown from 34 contracts in 1996 to 152 contracts in September 2001.

Financial Performance

From 1998 to 2000, America Service Group more than tripled revenues from \$113.3 million to \$381.9 million. This was due in large part to the EMSA acquisition in 2000. Gross margins declined slightly as the company faced pressure from rising healthcare and labor costs. Earnings per share were \$1.40 in 2000, up from \$0.60 in 1999.

In the quarter ended September 30, 2001, the company generated a loss of \$0.18 per share, compared to a gain of \$0.37 the year before. For the year to date, diluted loss per share was \$3.28, versus earnings of \$1.02 last year. The year-to-date loss reflects impairment charges of \$13.2 million associated with expired contracts not renewed, as well as margin pressure tied to rising labor and healthcare costs and unprofitable, full-risk contracts. Revenue for the first nine months of the year increased to \$418.9 million versus \$268.5 million last year. Approximately 60% of the increase over the period in the year before was due to acquisitions closed in 2000, with the balance coming from new contracts and growth in existing contracts. For the third quarter, revenues rose to \$140.1 million versus \$102.8 million for the period a year ago, due largely to the acquisition of SPP. In the third quarter, America Service group reverted to positive gross margin after generating negative margins in the second quarter.

America Service Group					
ASGR					
Fiscal Year End December 31					
Statement of Operations (in 000's)	1998	1999	2000	9 Months	
				2000 YTD	2001 YTD
Revenues	113,287	272,926	381,946	268,460	418,865
Cost Related to Revenues	(101,884)	(245,485)	(344,759)	(241,840)	(406,394)
Gross Profit Margin	11,403	27,441	37,187	26,620	12,471
Overhead	(9,752)	(12,335)	(13,838)	(10,307)	(14,429)
Other Income (JV or NC)	-	-	-	-	-
Operating Income (EBITDA)	1,651	15,106	23,349	16,313	(1,958)
Dep & Am	(1,199)	(3,545)	(5,962)	(4,038)	(5,741)
Extraordinary Items	4,047	-	-	-	(15,822)
Net Interest Expense	600	(3,830)	(4,077)	(2,767)	(3,915)
Income from Continuing Operations Before Taxes	5,099	7,731	13,310	9,508	(27,436)
(Provision) Benefit for Income Taxes	625	(3,091)	(5,503)	(3,897)	10,399
Income (Loss) from Continuing Operations	5,724	4,640	7,807	5,611	(17,037)
Income (Loss) from Discont. Ops., Extraordinary Items, Other	-	-	-	-	-
Minority Interest	-	-	-	-	-
Net Income	5,724	4,640	7,807	5,611	(17,037)
Preferred Dividends	-	(2,312)	(648)	(489)	(163)
Net Income to Common	5,724	2,328	7,159	5,122	(17,200)
EPS					
Income (Loss) from Continuing Operations - Basic	1.61	0.64	1.86	1.35	(3.28)
Income (Loss) from Continuing Operations - Diluted	1.57	0.60	1.40	1.02	(3.28)
Weighted Average of Common Stock Outstanding - Basic	3,554	3,613	3,854	3,796	5,245
Weighted Average of Common Stock Outstanding - Diluted	3,653	3,877	5,587	5,502	5,245
Balance Sheet Data (in 000's)					
	1998	1999	2000	09/30/01	
Cash	7,211	444	256		1,598
Total Current Assets	24,799	48,911	74,376		98,787
Goodwill and Other Intangibles	-	34,112	63,283		47,165
Total Assets	28,375	98,727	161,402		174,750
Total Current Liabilities	14,284	39,413	58,803		145,116
Debt Current Portion	-	-	-		63,000
Long Term Debt	-	25,500	56,800		-
Total Debt	-	25,500	56,800		63,000
Preferred Equity	-	12,375	12,397		-
Common equity	12,791	18,565	28,965		24,266
Total Equity	12,791	30,940	41,362		24,266
Profitability Analysis					
	1998	1999	2000	9 Months	
				2000 YTD	2001 YTD
Revenues	100.0%	100.0%	100.0%	100.0%	100.0%
Cost Related to Revenues	-89.9%	-89.9%	-90.3%	-90.1%	-97.0%
Gross Profit Margin	10.1%	10.1%	9.7%	9.9%	3.0%
Overhead	-8.6%	-4.5%	-3.6%	-3.8%	-3.4%
Other Income (JV or NC)	0.0%	0.0%	0.0%	0.0%	0.0%
Operating Income (EBITDA)	1.5%	5.5%	6.1%	6.1%	-0.5%
Dep & Am	-1.1%	-1.3%	-1.6%	-1.5%	-1.4%
Extraordinary Items	3.6%	0.0%	0.0%	0.0%	-3.8%
Net Interest Expense	0.5%	-1.4%	-1.1%	-1.0%	-0.9%
Income from Continuing Operations Before Taxes	4.5%	2.8%	3.5%	3.5%	-6.6%
(Provision) Benefit for Income Taxes	0.6%	-1.1%	-1.4%	-1.5%	2.5%
Income (Loss) from Continuing Operations	5.1%	1.7%	2.0%	2.1%	-4.1%
Income (Loss) from Discont. Ops., Extraordinary Items, Other	0.0%	0.0%	0.0%	0.0%	0.0%
Minority Interest	0.0%	0.0%	0.0%	0.0%	0.0%
Net Income	5.1%	1.7%	2.0%	2.1%	-4.1%
Capital Structure					
	1998	1999	2000	9/30/01	
Funded Debt/EBITDA	0.0x	1.7x	2.4x		neg
Working Capital/Total Assets	37%	10%	10%		-27%
Debt/Total Capital	0%	45%	58%		72%

Avalon Correctional Services, Inc.

Price as of 12/31/01

\$1.99

Ticker Symbol

CITY**Henry J. Coffey, Jr., CFA**

615.238.2307

hcoffey@mlga.com

Carrington Fox

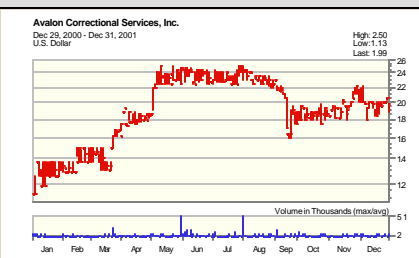
615.238.2308

cfox@mlga.com

Key Data

Market Cap (mm)	\$9.6
52-Week Range	\$1.13-\$2.50
Shares Outstanding (mm)	4.8
Estimated Float	54.5%
Insider Ownership	45.5%
Institutional Holdings	0.0%
Average Daily Volume	2,263
Indicated Dividend	\$0.00
Dividend Yield	0.0%
Total Enterprise Value (TEV) (mm)	\$33.1

Stock Price Performance



Source: FactSet

Company Description

Headquartered in Oklahoma City, OK, Avalon is the only publicly traded company focused exclusively on community corrections. Avalon owns and operates 1,700 private community corrections beds in three minimum-security facilities and a juvenile residential center in Oklahoma, two medium-security facilities in Texas, and three community corrections facilities in Colorado. Avalon's community corrections facilities and alternative programs serve offenders still in the correctional system or granted parole or probation. Avalon offers a range of programs from substance abuse treatment to GED classes. Correctional services include contract services, development, building, and operation of community corrections facilities. The company has been providing services to the Oklahoma Department of Corrections since 1985, and today Oklahoma contracts account for about 40% of revenues. Colorado and Texas contracts account for 28% and 19% of its revenues, respectively.

Financial Performance

Avalon nearly tripled revenues between 1998 and 2000, from \$7.7 million to \$22.9 million. At the same time, the census of inmates rose 318%. Approximately 40% of this growth was generated through acquisitions, and 60% was the result of internal growth. Earnings per share have increased from a loss of \$0.13 in 1998 to \$0.20 in 2000. Between 1999 and 2000, Avalon increased net income by 1,060%.

For the third quarter of 2001, diluted earnings per share were \$0.07, compared to \$0.05 in 2000. For the year to date through September 2001, diluted EPS were \$0.19, versus \$0.15 last year. Revenues for the nine months increased 11.2% to \$18.6 million from \$16.7 million last year. Revenues for the third quarter of 2001 rose 4.5% to \$6.4 million from \$6.1 million as a result of higher overall inmate populations.

Avalon Correctional Services					
CITY					
Fiscal Year End December 31				9 Months	
Statement of Operations (in 000's)	1998	1999	2000	2000 YTD	2001 YTD
Revenues	7,686	16,803	22,922	16,749	18,623
<u>Cost Related to Revenues</u>	<u>(4,692)</u>	<u>(11,302)</u>	<u>(15,406)</u>	<u>(11,031)</u>	<u>(12,736)</u>
Gross Profit Margin	2,994	5,501	7,516	5,718	5,887
Overhead	(1,427)	(1,630)	(1,588)	(1,371)	(1,277)
<u>Other Income (Loss) -- (JV or NC)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Operating Income (Loss) -- (EBITDA)	1,567	3,871	5,928	4,347	4,610
Dep & Am	(628)	(1,186)	(1,534)	(1,099)	(1,367)
Extraordinary Items	(165)	(35)	-	-	-
Net Interest Expense	(1,224)	(2,567)	(3,431)	(2,549)	(2,298)
Income (Loss) from Continuing Operations Before Taxes	(450)	83	963	699	945
Provision (Benefit) for Income Taxes	-	-	-	-	-
Income (Loss) from Continuing Operations	(450)	83	963	699	945
Income (Loss) from Discont. Ops., Extraordinary Items, Other	-	-	-	-	-
<u>Minority Interest</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Income	(450)	83	963	699	945
Preferred Dividends	-	-	-	-	-
Net Income to Common	(450)	83	963	699	945
EPS					
Income (Loss) from Continuing Operations - Basic	(0.13)	0.02	0.20	0.15	0.20
Income (Loss) from Continuing Operations - Diluted	(0.13)	0.02	0.20	0.15	0.19
Weighted Average of Common Stock Outstanding - Basic	3,499	4,670	4,748	4,742	4,795
Weighted Average of Common Stock Outstanding - Diluted	3,499	5,125	4,753	4,814	6,278
Balance Sheet Data (in 000's)				09/30/01	
Cash	5,181	601	726		1,153
Total Current Assets	12,870	3,460	4,924		4,250
Goodwill and Other Intangibles	-	-	-		-
Total Assets	28,765	38,440	39,455		38,546
Total Current Liabilities	4,227	2,545	4,469		3,391
Debt Current Portion	2,201	1,150	2,992		1,887
Long Term Debt	18,198	29,404	27,464		26,560
Total Debt	20,399	30,554	30,456		28,447
Preferred Equity	-	-	-		-
Common Equity	6,340	6,491	7,522		8,595
Total Equity	6,340	6,491	7,522		8,595
Profitability Analysis				9 Months	
	1998	1999	2000	2000 YTD	2001 YTD
Revenues	100.0%	100.0%	100.0%	100.0%	100.0%
Cost Related to Revenues	-61.0%	-67.3%	-67.2%	-65.9%	-68.4%
Gross Profit Margin	39.0%	32.7%	32.8%	34.1%	31.6%
Overhead	-18.6%	-9.7%	-6.9%	-8.2%	-6.9%
Other Income (Loss) -- (JV or NC)	0.0%	0.0%	0.0%	0.0%	0.0%
Operating Income (Loss) -- (EBITDA)	20.4%	23.0%	25.9%	26.0%	24.8%
Dep & Am	-8.2%	-7.1%	-6.7%	-6.6%	-7.3%
Extraordinary Items	-2.1%	-0.2%	0.0%	0.0%	0.0%
Net Interest Expense	-15.9%	-15.3%	-15.0%	-15.2%	-12.3%
Income (Loss) from Continuing Operations Before Taxes	-5.9%	0.5%	4.2%	4.2%	5.1%
Provision (Benefit) for Income Taxes	0.0%	0.0%	0.0%	0.0%	0.0%
Income (Loss) from Continuing Operations	-5.9%	0.5%	4.2%	4.2%	5.1%
Income (Loss) from Discont. Ops., Extraordinary Items, Other	0.0%	0.0%	0.0%	0.0%	0.0%
Minority Interest	0.0%	0.0%	0.0%	0.0%	0.0%
Net Income	-5.9%	0.5%	4.2%	4.2%	5.1%
Capital Structure				9/30/01	
Funded Debt/EBITDA	13.0x	7.9x	5.1x		4.6x
Working Capital/Total Assets	30%	2%	1%		2%
Debt/Total Capital	76%	82%	80%		77%

Cornell Companies, Inc.

Price as of 12/31/01

\$17.65

Ticker Symbol
CRN (NYSE)

Henry J. Coffey, Jr., CFA
615.238.2307
hcoffey@mlga.com

Carrington Fox
615.238.2308
cfox@mlga.com

Key Data

Market Cap (mm)	\$219.4
52-Week Range	\$4.81-18.40
Shares Outstanding (mm)	12.4
Estimated Float	91.3%
Insider Ownership	8.7%
Institutional Holdings	53.1%
Average Daily Volume	39,541
Indicated Dividend	\$0.00
Dividend Yield	0.0%
Total Enterprise Value (TEV) (mm)	\$170.9

Stock Price Performance



Source: FactSet

Company Description

Cornell Companies, based in Houston, TX, develops, designs, builds and manages correctional facilities based on government contracts. Cornell had 2000 revenues of \$226.1 million. Through 69 facilities in 13 states and the District of Columbia, Cornell provides adult secure institutions, juvenile treatment, educational and detention services, and pre-release correctional treatment services. The company has a capacity to serve 11,229 residential inmates and 4,012 non-residential community-based offenders. The company has listed expansion in non-residential adult and juvenile programs for education and treatment as an avenue for future growth. Community-based services account for approximately 20% of Cornell's service capacity.

Financial Performance

From 1998 to 2000, Cornell Companies increased revenues from \$123.1 million to \$226.1 million. Gross margin increased over the three years from 19.8% in 1998 to 22.4% in 2000, but has fallen to 20.0% for the first nine months of 2001 largely as a result of increased personnel costs. Earnings per share increased from \$0.62 in 1998 to \$0.84 in 2000.

For the third quarter 2001, EPS was \$0.15, compared to \$0.20 last year. The decline was due to increased operating and overhead expenses, including a one-time charge of \$660,000 related to a write-off related to deferred acquisition costs. Operating expense rose as a result of higher facility rent after the company completed a sale-leaseback of 11 properties in August 2001. For the first nine months of the year, EPS were \$0.45, compared to \$0.64 last year. Revenue for the nine months increased 17.8%, due to various facilities expansions in 2000, increases in per diem rates and new programs and contracts. Revenues for the third quarter 2001 were 21.1% higher than the same quarter last year. The proceeds of the sale-leaseback were used to repay \$120.0 million of long-term debt. In November, the company raised \$48.3 million through the issue of 3.450 million shares of common stock, which will be used to retire all of the company's remaining long-term debt and for future growth.

Cornell Companies					
CRN					
Fiscal Year End December 31				9 Months	
Statement of Operations (in 000's)	1998	1999	2000	2000 YTD	2001 YTD
Revenues	123,119	176,967	226,050	165,622	195,106
Cost Related to Revenues	(98,721)	(135,850)	(175,391)	(128,585)	(156,052)
Gross Profit Margin	24,398	41,117	50,659	37,037	39,054
Overhead	(7,581)	(12,861)	(14,322)	(9,842)	(15,248)
Other Income (Expenses) -- (JV or NC)	-	-	-	-	-
Operating Income (Loss) -- (EBITDA)	16,817	28,256	36,337	27,195	23,806
Dep & Am	(4,228)	(6,007)	(7,276)	(5,312)	(5,748)
Extraordinary Items	-	-	-	-	-
Net Interest (Expense) Income	(2,485)	(8,405)	(15,554)	(11,553)	(11,102)
Income (Loss) from Continuing Operations Before Taxes	10,104	13,844	13,507	10,330	6,956
(Provision) Benefit for Income Taxes	(4,042)	(5,538)	(5,538)	(4,234)	(2,852)
Income (Loss) from Continuing Operations	6,062	8,306	7,969	6,096	4,104
Income (Loss) from Discont. Ops., Extraordinary Items, Other	-	(2,954)	-	-	291
Minority Interest	-	-	-	-	-
Net Income	6,062	5,352	7,969	6,096	4,395
Preferred Dividends	-	-	-	-	-
Net Income to Common	6,062	5,352	7,969	6,096	4,395
EPS					
Income (Loss) from Continuing Operations - Basic	0.64	0.57	0.85	0.65	0.48
Income (Loss) from Continuing Operations - Diluted	0.62	0.55	0.84	0.64	0.45
Weighted Average of Common Stock Outstanding - Basic	9,442	9,432	9,383	9,435	9,236
Weighted Average of Common Stock Outstanding - Diluted	9,772	9,660	9,495	9,570	9,661
Balance Sheet Data (in 000's)	1998	1999	2000	09/30/01	
Cash	2,519	1,763	620		50,402
Total Current Assets	36,108	54,756	62,923		122,494
Goodwill and Other Intangibles	9,935	18,270	16,861		15,808
Total Assets	212,695	273,991	291,439		185,693
Total Current Liabilities	19,280	67,392	33,220		25,609
Debt Current Portion	73	-	41		44
Long Term Debt	98,407	101,500	146,926		38,424
Total Debt	98,480	101,500	146,967		38,468
Preferred Equity	-	-	-		-
Common Equity	91,500	97,208	104,320		109,221
Total Equity	91,500	97,208	104,320		109,221
Profitability Analysis	1998	1999	2000	9 Months	
				2000 YTD	2001 YTD
Revenues	100.0%	100.0%	100.0%	100.0%	100.0%
Cost Related to Revenues	-80.2%	-76.8%	-77.6%	-77.6%	-80.0%
Gross Profit Margin	19.8%	23.2%	22.4%	22.4%	20.0%
Overhead	-6.2%	-7.3%	-6.3%	-5.9%	-7.8%
Other Income (Expenses) -- (JV or NC)	0.0%	0.0%	0.0%	0.0%	0.0%
Operating Income (Loss) -- (EBITDA)	13.7%	16.0%	16.1%	16.4%	12.2%
Dep & Am	-3.4%	-3.4%	-3.2%	-3.2%	-2.9%
Extraordinary Items	0.0%	0.0%	0.0%	0.0%	0.0%
Net Interest (Expense) Income	-2.0%	-4.7%	-6.9%	-7.0%	-5.7%
Income (Loss) from Continuing Operations Before Taxes	8.2%	7.8%	6.0%	6.2%	3.6%
(Provision) Benefit for Income Taxes	-3.3%	-3.1%	-2.4%	-2.6%	-1.5%
Income (Loss) from Continuing Operations	4.9%	4.7%	3.5%	3.7%	2.1%
Income (Loss) from Discont. Ops., Extraordinary Items, Other	0.0%	-1.7%	0.0%	0.0%	0.1%
Minority Interest	0.0%	0.0%	0.0%	0.0%	0.0%
Net Income	4.9%	3.0%	3.5%	3.7%	2.3%
Capital Structure	1998	1999	2000	9/30/01	
Funded Debt/EBITDA	5.9x	3.6x	4.0x		1.2x
Working Capital/Total Assets	8%	-5%	10%		52%
Debt/Total Capital	52%	51%	58%		26%

Correctional Properties Trust

Price as of 12/31/01

\$16.90

Ticker Symbol
CPV (NYSE)

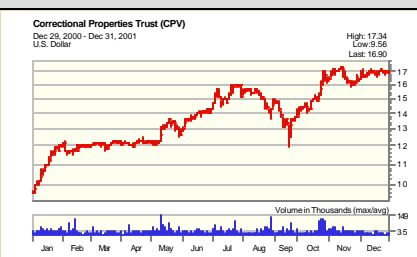
Henry J. Coffey, Jr., CFA
615.238.2307
hcoffey@mlga.com

Carrington Fox
615.238.2308
cfox@mlga.com

Key Data

Market Cap (mm)	\$120.8
52-Week Range	\$9.56- \$17.34
Shares Outstanding (mm)	7.1
Estimated Float	92.5%
Insider Ownership	7.5%
Institutional Holdings	22.8%
Average Daily Volume	33,237
Indicated Dividend	\$1.47
Dividend Yield	8.7%
Total Enterprise Value (TEV) (mm)	\$191.9

Stock Price Performance



Source: FactSet

Company Description

Correctional Properties Trust is a real estate investment trust based in Palm Beach Gardens, FL. Formed in 1998, the company acquires correctional and detention facilities from private prison operators and governmental entities and leases them to correctional and detention facility operators. Correctional Properties Trust had 2000 revenues of \$22.7 million. The company owns 13 facilities in nine states. Correctional Properties Trust's majority tenant is Wackenhut Corrections Corporation, which leases 11 of the company's 13 properties. The state of North Carolina leases the other two properties, which Correctional Properties Trust acquired from Corrections Corp. in 2001. The terms of the leases require tenants to pay all operating expenses, taxes, insurance, structural and non-structural repairs.

Financial Performance

Since its IPO in 1998, Correctional Properties Trust has grown revenues from \$8.6 million to \$22.7 million. Earnings per share were \$0.97 in 1998, \$1.22 in 1999 and \$1.18 in 2000.

For the third quarter of 2001, EPS were \$0.32, versus \$0.29 last year. EPS for the first nine months of 2001 were \$0.93, compared to \$0.90 for the period last year. Revenues for the three months were 31.7% higher than in the quarter last year, due mostly to revenue associated with new acquisitions in the first and second quarters. Overhead expenses fell as a percentage of revenue to 5.6% versus 6.2% last year. For the nine months ended September 30, revenues were 17.1% higher than last year, also resulting from the acquisition of correctional properties and from increases in lease rates.

Correctional Properties Trust					
CPV					
Fiscal Year End December 31 (IPO Feb 18, 1998)				9 Months	
Statement of Operations (in 000's)	1998	1999	2000	2000 YTD	2001 YTD
Revenues	8,628	20,329	22,711	17,018	19,935
<u>Cost Related to Revenues</u>	-	-	-	-	-
Gross Profit Margin	8,628	20,329	22,711	17,018	19,935
Overhead	(1,052)	(1,491)	(1,450)	(1,088)	(1,178)
<u>Other Income (Expenses) -- (JV or NC)</u>	-	-	-	-	-
Operating Income (Loss) -- (EBITDA)	7,576	18,838	21,261	15,930	18,757
Dep & Am	(1,890)	(4,884)	(5,342)	(4,005)	(4,728)
Extraordinary Items	-	-	-	-	-
Net Interest (Expense) Income	(300)	(5,226)	(7,475)	(5,512)	(7,398)
Income (Loss) from Continuing Operations Before Taxes	5,386	8,728	8,444	6,413	6,631
(Provision) Benefit for Income Taxes	-	-	-	-	-
Income (Loss) from Continuing Operations	5,386	8,728	8,444	6,413	6,631
Income (Loss) from Discont. Ops., Extraordinary Items, Other	-	-	-	-	-
<u>Minority Interest</u>	-	-	-	-	-
Net Income	5,386	8,728	8,444	6,413	6,631
Preferred Dividends	-	-	-	-	-
Net Income to Common	5,386	8,728	8,444	6,413	6,631
EPS					
Income (Loss) from Continuing Operations - Basic	0.97	1.22	1.18	0.90	0.93
Income (Loss) from Continuing Operations - Diluted	0.97	1.22	1.18	0.90	0.93
Weighted Average of Common Stock Outstanding - Basic	5,541	7,130	7,130	7,130	7,138
Weighted Average of Common Stock Outstanding - Diluted	5,546	7,130	7,130	7,130	7,157
Balance Sheet Data (in 000's)					
	1998	1999	2000	09/30/01	
Cash	2,325	121	466		8,858
Total Current Assets	2,325	121	466		1,714
Goodwill and Other Intangibles	-	-	-		-
Total Assets	142,764	203,548	213,775		269,196
Total Current Liabilities	10,765	72,788	84,832		145,258
Debt Current Portion	9,000	69,200	81,400		80,000
Long Term Debt	-	-	-		-
Total Debt	9,000	69,200	81,400		80,000
Preferred Equity	-	-	-		-
Common Equity	131,999	130,760	128,943		123,938
Total Equity	131,999	130,760	128,943		123,938
Profitability Analysis					
	1998	1999	2000	9 Months	
				2000 YTD	2001 YTD
Revenues	100.0%	100.0%	100.0%	100.0%	100.0%
Cost Related to Revenues	0.0%	0.0%	0.0%	0.0%	0.0%
Gross Profit Margin	100.0%	100.0%	100.0%	100.0%	100.0%
Overhead	-12.2%	-7.3%	-6.4%	-6.4%	-5.9%
Other Income (Expenses) -- (JV or NC)	0.0%	0.0%	0.0%	0.0%	0.0%
Operating Income (Loss) -- (EBITDA)	87.8%	92.7%	93.6%	93.6%	94.1%
Dep & Am	-21.9%	-24.0%	-23.5%	-23.5%	-23.7%
Extraordinary Items	0.0%	0.0%	0.0%	0.0%	0.0%
Net Interest (Expense) Income	-3.5%	-25.7%	-32.9%	-32.4%	-37.1%
Income (Loss) from Continuing Operations Before Taxes	62.4%	42.9%	37.2%	37.7%	33.3%
(Provision) Benefit for Income Taxes	0.0%	0.0%	0.0%	0.0%	0.0%
Income (Loss) from Continuing Operations	62.4%	42.9%	37.2%	37.7%	33.3%
Income (Loss) from Discont. Ops., Extraordinary Items, Other	0.0%	0.0%	0.0%	0.0%	0.0%
Minority Interest	0.0%	0.0%	0.0%	0.0%	0.0%
Net Income	62.4%	42.9%	37.2%	37.7%	33.3%
Capital Structure					
	1998	1999	2000	9/30/01	
Funded Debt/EBITDA	1.2x	3.7x	3.8x		3.2x
Working Capital/Total Assets	-6%	-36%	-39%		-53%
Debt/Total Capital	6%	35%	39%		39%

Correctional Services Corporation

Price as of 12/31/01

\$1.99

Ticker Symbol

CSCQ**Henry J. Coffey, Jr., CFA**

615.238.2307

hcoffey@mlga.com

Carrington Fox

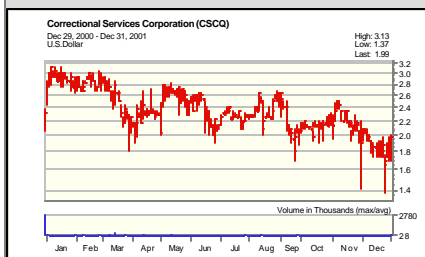
615.238.2308

cfox@mlga.com

Key Data

Market Cap (mm)	\$20.2
52-Week Range	\$1.37-3.13
Shares Outstanding (mm)	10.2
Estimated Float	82.1%
Insider Ownership	17.9%
Institutional Holdings	18.5%
Average Daily Volume	26,435
Indicated Dividend	\$0.00
Dividend Yield	0.0%
Total Enterprise Value (TEV) (mm)	\$38.0

Stock Price Performance



Source: FactSet

Company Description

Headquartered in Sarasota, FL, Correctional Services Corporation generated revenues of \$210.8 million in 2000 through correctional services contracts with federal, state and local governments. Founded in 1989, the company finances, builds and operates correctional facilities. The company operates secure and non-secure adult facilities and programs; juvenile detention and residential treatment; community corrections and home confinement supervision; and education and treatment programs for male and female inmates, including sex offenders, drug- and alcohol-dependent inmates and inmates with special needs. Correctional Services Corporation has grown largely through acquisitions, including the acquisition of Youth Services International in 1999. The subsidiary provides correctional services, facilities and programs to juvenile offenders and at-risk youth. In 2000, contracts with the Florida and Maryland departments of juvenile justice each accounted for greater than 10% of company revenues.

Financial Performance

From 1998 to 2000, Correctional Services Corporation grew revenues from \$188.5 million to \$210.8 million, while gross margins increased from 7.3% to 12.0%. Earnings per share rose from a loss of \$1.53 in 1998 to a gain of \$0.51 in 2000.

Loss per share for the third quarter of 2001 was \$0.52, compared to a gain of \$0.14 last year. For the first nine months of 2001, the company lost \$0.62 per share, versus a gain of \$0.41 last year. Revenues for the first nine months of 2001 decreased by 16.7% from last year, due primarily to discontinuance of operations at 12 facilities. Operating expenses rose to 92.8% from 87.5% last year as a result of closing facilities, lower occupancy and a 2.8% increase in operating expenses at ongoing facilities. Revenue for the third quarter 2001 decreased by 18.9% from last year. The company has announced a restructuring plan to be completed by August 2002, designed to boost occupancy, reduce SG&A and close underperforming facilities.

Correctional Services Corporation					
CSCQ					
Fiscal Year End December 31 Restated for 1999 pooling				9 Months	
Statement of Operations (in 000's)	1998	1999	2000	2000 YTD	2001 YTD
Revenues	188,454	233,918	210,812	158,275	131,828
<u>Cost Related to Revenues</u>	<u>(174,614)</u>	<u>(206,839)</u>	<u>(185,602)</u>	<u>(138,501)</u>	<u>(122,353)</u>
Gross Profit Margin	13,840	27,079	25,210	19,774	9,475
Overhead	(15,452)	(7,192)	(8,796)	(5,844)	(8,238)
<u>Other Income (Expenses) -- (JV or NC)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Operating Income (Loss) -- (EBITDA)	(1,612)	19,887	16,414	13,930	1,237
Dep & Am	(5,667)	(6,707)	(4,874)	(3,712)	(3,056)
Extraordinary Items	(3,436)	(13,926)	1,115	-	(6,704)
Net Interest (Expense) Income	(2,611)	(3,069)	(3,157)	(2,431)	(1,215)
Income (Loss) from Continuing Operations before taxes	(13,326)	(3,815)	9,498	7,787	(9,738)
(Provision) Benefit for Income Taxes	1,593	(429)	(3,710)	(3,076)	3,451
Income (Loss) from Continuing Operations	(11,733)	(4,244)	5,788	4,711	(6,287)
Income (Loss) from Discont. Ops., Extraordinary Items, Other	(4,863)	716	-	-	-
<u>Minority Interest</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Income	(16,596)	(3,528)	5,788	4,711	(6,287)
Preferred Dividends	-	-	-	-	-
Net Income to Common	(16,596)	(3,528)	5,788	4,711	(6,287)
EPS					
Income (Loss) from Continuing Operations - Basic	(1.53)	(0.31)	0.51	0.41	(0.62)
Income (Loss) from Continuing Operations - Diluted	(1.53)	(0.31)	0.51	0.41	(0.62)
Weighted Average of Common Stock Outstanding - Basic	10,860	11,219	11,366	11,373	10,189
Weighted Average of Common Stock Outstanding - Diluted	10,860	11,219	11,367	11,377	10,189
Balance Sheet Data (in 000's)					
	1998	1999	2000	09/30/01	
Cash	7,796	7,262	225		121
Total Current Assets	53,187	49,244	45,530		31,858
Goodwill and Other Intangibles	1,790	1,428	1,049		772
Total Assets	125,314	111,198	96,775		88,305
Total Current Liabilities	30,020	26,963	26,699		40,751
Debt Current Portion	1,124	5,003	6,679		17,600
Long Term Debt	44,288	33,497	16,338		316
Total Debt	45,412	38,500	23,017		17,916
Preferred Equity	-	-	-		-
Common Equity	51,006	50,738	53,738		47,238
Total Equity	51,006	50,738	53,738		47,238
Profitability Analysis					
	1998	1999	2000	9 Months	
				2000 YTD	2001 YTD
Revenues	100.0%	100.0%	100.0%	100.0%	100.0%
Cost Related to Revenues	-92.7%	-88.4%	-88.0%	-87.5%	-92.8%
Gross Profit Margin	7.3%	11.6%	12.0%	12.5%	7.2%
Overhead	-8.2%	-3.1%	-4.2%	-3.7%	-6.2%
Other Income (Expenses) -- (JV or NC)	0.0%	0.0%	0.0%	0.0%	0.0%
Operating Income (Loss) -- (EBITDA)	-0.9%	8.5%	7.8%	8.8%	0.9%
Dep & Am	-3.0%	-2.9%	-2.3%	-2.3%	-2.3%
Extraordinary Items	-1.8%	-6.0%	0.5%	0.0%	-5.1%
Net Interest (Expense) Income	-1.4%	-1.3%	-1.5%	-1.5%	-0.9%
Income (Loss) from Continuing Operations before taxes	-7.1%	-1.6%	4.5%	4.9%	-7.4%
(Provision) Benefit for Income Taxes	0.8%	-0.2%	-1.8%	-1.9%	2.6%
Income (Loss) from Continuing Operations	-6.2%	-1.8%	2.7%	3.0%	-4.8%
Income (Loss) from Discont. Ops., Extraordinary Items, Other	-2.6%	0.3%	0.0%	0.0%	0.0%
Minority Interest	0.0%	0.0%	0.0%	0.0%	0.0%
Net Income	-8.8%	-1.5%	2.7%	3.0%	-4.8%
Capital Structure					
	1998	1999	2000	9/30/01	
Funded Debt/EBITDA	neg	1.9x	1.4x		10.9x
Working Capital/Total Assets	18%	20%	19%		-10%
Debt/Total Capital	47%	43%	30%		27%

Corrections Corporation of America

Price as of 12/31/01
\$18.56

Ticker Symbol
CXW (NYSE)

Henry J. Coffey, Jr., CFA
 615.238.2307
 hcoffey@mlga.com

Carrington Fox
 615.238.2308
 cfox@mlga.com

Key Data

Market Cap (mm)	\$466.4
52-Week Range	\$2.81-19.25
Shares Outstanding (mm)	25.1
Estimated Float	93.9%
Insider Ownership	6.1%
Institutional Holdings	23.0%
Average Daily Volume	89,433
Indicated Dividend	\$0.00
Dividend Yield	0.0%
Total Enterprise Value (TEV) (mm)	\$1,572.8

Stock Price Performance



Source: FactSet

Company Description

Located in Nashville, TN, Corrections Corporation of America designs, builds, and operates corrections and detention facilities for juveniles and adults. In 2000, the company generated revenues of \$891.7 million, on a pro forma basis, through contracts with government at state, local and federal levels in 21 states, Washington, D.C., and Puerto Rico. Founded in 1983, Corrections Corp. has 70 facilities with approximately 65,000 beds and is the sixth largest correctional system in the U.S. and the largest private operator. Corrections Corp. also provides educational programs, substance abuse programs, and healthcare for inmates. Its TransCor America subsidiary is the nation's largest prisoner transportation company. In 2000, Corrections Corp. restructured management and combined with Prison Realty Trust, formerly a separate publicly traded REIT, into Corrections Corporation of America, a traditional tax-paying corporation.

Financial Performance

The last three to four years for Corrections Corporation of America have been turbulent as the company has transformed itself from a traditional corporate structure to a REIT and then back again. Our focus is on the performance of the company in its more traditional format, and we have drawn upon both historical and pro forma data to construct the attached financials. From 1995 to 1997, before dividing operations between the old Corrections Corp. and Prison Realty Trust, the company grew revenues from \$205.3 million to \$454.5 million. Margins reached 25.7% in 1996.

In the third quarter of 2001 the company reported a loss per share of \$0.23 versus a loss of \$22.04 on a pro forma basis for the third quarter of 2000. The company reported it broke even at 88.8% occupancy, before the effects of a one-time charge associated with an interest swap agreement. For the nine months ended September 30, 2001, the company reported revenues of \$734.3 million. Gross margins for the year to date have increased over pro forma 2000 results. Per share loss for the year to date decreased to \$0.84, compared to \$31.96 last year.

Since restructuring in 2000, the company has focused on selling assets to pay down debt and has reduced total debt from greater than \$1.1 billion to \$994.9 million. In 2001, the company paid down \$186.8 million. In December 2001, Corrections Corp. announced an amendment and restatement of its \$269.4 million revolving portion of its credit facility, which was converted into a term loan due December 31, 2002. As a result, the company is no longer prohibited from paying cash dividends on its Preferred A stock.

Corrections Corporation of America						
CXW						
Fiscal Year End December 31						
Statement of Operations (in 000's)						
	1995	1996	1997	2000 PF	9 Months 2001 YTD	
Revenues	205,338	287,914	454,546	891,680		734,295
Cost Related to Revenues	(159,596)	(213,994)	(349,154)	(719,683)		(563,388)
Gross Profit Margin	45,742	73,920	105,392	171,997		170,907
Overhead	(13,506)	(12,607)	(16,025)	(47,411)		(25,465)
Other Income	619	1,098	916	-		-
Operating Income (EBITDA)	32,855	62,411	90,283	124,586		145,442
Dep & Am	(6,524)	(11,339)	(14,093)	(63,416)		(40,088)
Extraordinary Items	1,284	3,501	6,787	(610,941)		(12,480)
Net Interest Expense	(3,952)	(4,224)	4,119	(148,462)		(96,752)
Income from Continuing Operations Before Taxes	23,663	50,349	87,096	(698,233)		(3,878)
Provision for Income Taxes	(9,330)	(19,469)	(33,141)	146,230		(1,479)
Income (Loss) from Continuing Operations	14,333	30,880	53,955	(552,003)		(5,357)
Income (Loss) from Discont. Ops., Extraordinary Items, Other	-	-	-	-		-
Minority Interest	-	-	-	-		-
Net Income	14,333	30,880	53,955	(552,003)		(5,357)
Preferred Dividends	-	-	-	(13,526)		(14,915)
Net Income to Common	14,333	30,880	53,955	(565,529)		(20,272)
EPS						
Income (Loss) from Continuing Operations - Basic	0.23	0.43	0.70	(38.21)		(0.84)
Income (Loss) from Continuing Operations - Diluted	0.18	0.36	0.61	(38.21)		(0.84)
Weighted Average of Common Stock Outstanding - Basic	62,257	71,763	77,221	14,801		24,215
Weighted Average of Common Stock Outstanding - Diluted	81,595	87,040	90,239	14,801		24,215
Balance Sheet Data (in 000's)						
		1996	1997	2000	09/30/01	
Cash		8,282	136,147	30,098		43,400
Total Current Assets		114,442	233,422	238,687		233,561
Goodwill and Other Intangibles		-	-	109,006		105,905
Total Assets		468,888	697,940	2,176,992		2,000,704
Total Current Liabilities		63,894	96,660	275,499		510,211
Debt Current Portion		8,281	5,847	14,594		286,528
Long Term Debt		117,535	127,075	1,137,976		708,392
Total Debt		125,816	132,922	1,152,570		994,920
Preferred Equity		-	380	188,142		201,122
Common Equity		281,752	347,696	499,873		488,140
Total Equity		281,752	348,076	688,015		689,262
Profitability Analysis						
	1995	1996	1997	2000 PF	9 Months 2001 YTD	
Revenues	100.0%	100.0%	100.0%	100.0%		100.0%
Cost Related to Revenues	-77.7%	-74.3%	-76.8%	-80.7%		-76.7%
Gross Profit Margin	22.3%	25.7%	23.2%	19.3%		23.3%
Overhead	-6.6%	-4.4%	-3.5%	-5.3%		-3.5%
Other Income	0.3%	0.4%	0.2%	0.0%		0.0%
Operating Income (EBITDA)	16.0%	21.7%	19.9%	14.0%		19.8%
Dep & Am	-3.2%	-3.9%	-3.1%	-7.1%		-5.5%
Extraordinary Items	0.6%	1.2%	1.5%	-68.5%		-1.7%
Net Interest Expense	-1.9%	-1.5%	0.9%	-16.6%		-13.2%
Income from Continuing Operations Before Taxes	11.5%	17.5%	19.2%	-78.3%		-0.5%
Provision for Income Taxes	-4.5%	-6.8%	-7.3%	16.4%		-0.2%
Income (Loss) from Continuing Operations	7.0%	10.7%	11.9%	-61.9%		-0.7%
Income (Loss) from Discont. Ops., Extraordinary Items, Other	0.0%	0.0%	0.0%	0.0%		0.0%
Minority Interest	0.0%	0.0%	0.0%	0.0%		0.0%
Net Income	7.0%	10.7%	11.9%	-61.9%		-0.7%
Capital Structure						
		1996	1997	2000 PF	9/30/01	
Funded Debt/EBITDA		2.0x	1.5x	9.3x		5.1x
Working Capital/Total Assets		11%	20%	-2%		-14%
Debt/Total Capital		31%	28%	63%		59%

Ramsay Youth Services, Inc.

Company Description

Headquartered in Coral Gables, FL, Ramsay Youth Services provides specialized behavioral treatment and juvenile justice programs for at-risk youth in both residential and non-residential settings. Ramsay offers therapeutic, substance abuse, educational and vocational programs designed to help rehabilitate and reintegrate at-risk youth and juvenile offenders into society. The company is compensated on per diem, flat rate and cost-based contracts. In 1998, the company sold its behavioral managed care segments and changed its name from Ramsay Health Care in 1999. The company operates in ten states and Puerto Rico. As a government contractor, Ramsay owns and leases facilities from government agencies, which it operates under varying levels of treatment intensity. The company has capacity of 1,600 beds. From 1999 to 2000, the number of Ramsay juvenile justice programs tripled to account for 27% of revenues.

Financial Performance

In 1998 Ramsay Health Care sold its behavioral managed care business and sold or closed selected psychiatric hospitals in order to focus on youth services. In 2000, the company acquired Manatee Palms, financing the transaction through an amended senior credit facility. On a pro forma basis, revenues from youth services have risen from \$81.5 million in 1999 to \$108.4 million in 2000. Pro forma gross margin has risen from 69.3% in 1999 to 73.9% in 2000 and was 71.7% for the first nine months of 2001. Earnings per share fell from \$0.33 in 1999 to \$0.32 in calendar 2000.

For the third quarter of 2001, EPS were \$0.10, compared to \$0.02 last year. Diluted EPS for the first nine months of the year were \$0.23, compared to \$0.05. Revenues for the first nine months of 2001 rose to \$99.3 million, versus \$76.6 million in 2000, resulting from a 2000 acquisition and a 9.5% increase in census between the periods last year and in 2001, as well as from additions of programs and a management contract. Revenues for the third quarter 2001 grew to \$33.6 million from \$27.9 million last year. Debt has grown from \$12.9 million in 1999 to \$29.9 million in June 2001 and now represents 56% of total capital.

Price as of 12/31/01

\$4.03

Ticker Symbol

RYOU**Henry J. Coffey, Jr., CFA**

615.238.2307

hcoffey@mlga.com

Carrington Fox

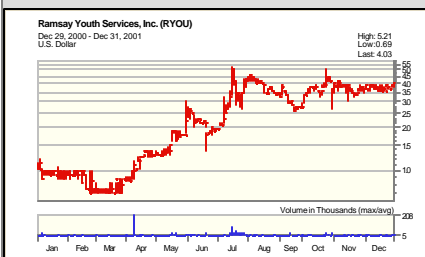
615.238.2308

cfox@mlga.com

Key Data

Market Cap (mm)	\$38.1
52-Week Range	\$0.69-\$5.21
Shares Outstanding (mm)	9.4
Estimated Float	32.4%
Insider Ownership	67.6%
Institutional Holdings	12.7%
Average Daily Volume	4,655
Indicated Dividend	\$0.00
Dividend Yield	0.0%
Total Enterprise Value (TEV) (mm)	\$66.7

Stock Price Performance



Source: FactSet

Ramsay Youth Services					
RYOU					
Fiscal Year End December 31 -- Changed in 1998 from June 30					
		Pro forma	Pro forma	9 months	
Statement of Operations (in 000's)	1998	1999	2000	2000 YTD	2001 YTD
Revenues		81,474	108,360	76,579	99,267
Cost Related to Revenues		(25,024)	(28,310)	(21,961)	(28,087)
Gross Profit Margin		56,450	80,050	54,618	71,180
Overhead		(49,283)	(68,353)	(48,345)	(61,846)
Other Income (Expenses) -- (JV or NC)(provision)		(1,896)	(2,817)	(1,730)	(2,183)
Operating Income (Loss) -- (EBITDA)		5,271	8,880	4,543	7,151
Dep & Am		(2,366)	(2,369)	(1,721)	(1,824)
Extraordinary Items		1,548	(578)	(456)	-
Net Interest (Expense) Income		(1,268)	(2,833)	(1,815)	(2,597)
Income (Loss) from Continuing Operations Before Taxes		3,185	3,100	551	2,730
(Provision) Benefit for Income Taxes		(68)	(248)	(146)	(472)
Income (Loss) from Continuing Operations		3,117	2,852	405	2,258
Income (Loss) from Discont. Ops., Extraordinary Items, Other		-	-	-	-
Minority Interest		-	-	-	-
Net Income		3,117	2,852	405	2,258
Preferred Dividends		-	-	-	-
Net Income to Common		3,117	2,852	405	2,258
EPS					
Income (Loss) from Continuing Operations - Basic		0.35	0.32	0.05	0.25
Income (Loss) from Continuing Operations - Diluted		0.33	0.32	0.05	0.23
Weighted Average of Common Stock Outstanding - Basic		8,890	8,913	8,908	8,977
Weighted Average of Common Stock Outstanding - Diluted		9,538	8,954	9,034	9,977
Balance Sheet Data (in 000's)					
	1998	1999	2000	09/30/01	
Cash		622	1,539		1,361
Total Current Assets		22,199	27,996		32,286
Goodwill and Other Intangibles		1,879	2,548		2,261
Total Assets		56,626	69,598		73,129
Total Current Liabilities		21,037	19,668		18,304
Debt Current Portion		1,394	2,803		3,170
Long Term Debt		11,561	24,708		26,784
Total Debt		12,955	27,511		29,954
Preferred Equity		-	-		-
Common Equity		17,094	20,833		23,119
Total Equity		17,094	20,833		23,119
Profitability Analysis					
	1998	1999	2000	9 months	
				2000 YTD	2001 YTD
Revenues		100.0%	100.0%	100.0%	100.0%
Cost Related to Revenues		-30.7%	-26.1%	-28.7%	-28.3%
Gross Profit Margin		69.3%	73.9%	71.3%	71.7%
Overhead		-60.5%	-63.1%	-63.1%	-62.3%
Other Income (Expenses) -- (JV or NC)(provision)		-2.3%	-2.6%	-2.3%	-2.2%
Operating Income (Loss) -- (EBITDA)		6.5%	8.2%	5.9%	7.2%
Dep & Am		-2.9%	-2.2%	-2.2%	-1.8%
Extraordinary Items		1.9%	-0.5%	-0.6%	0.0%
Net Interest (Expense) Income		-1.6%	-2.6%	-2.4%	-2.6%
Income (Loss) from Continuing Operations Before Taxes		3.9%	2.9%	0.7%	2.8%
(Provision) Benefit for Income Taxes		-0.1%	-0.2%	-0.2%	-0.5%
Income (Loss) from Continuing Operations		3.8%	2.6%	0.5%	2.3%
Income (Loss) from Discont. Ops., Extraordinary Items, Other		0.0%	0.0%	0.0%	0.0%
Minority Interest		0.0%	0.0%	0.0%	0.0%
Net Income		3.8%	2.6%	0.5%	2.3%
Capital Structure					
		1999	2000	9/30/01	
Funded Debt/EBITDA		2.5x	3.1x		3.1x
Working Capital/Total Assets		2%	12%		19%
Debt/Total Capital		43%	57%		56%

Price as of 12/31/01

\$8.85

Ticker Symbol

RSCR**Henry J. Coffey, Jr., CFA**

615.238.2307

hcoffey@mlga.com

Carrington Fox

615.238.2308

cfox@mlga.com

Key Data

Market Cap (mm)	\$215.7
52-Week Range	\$3.50-9.80
Shares Outstanding (mm)	24.4
Estimated Float	69.0%
Insider Ownership	31.0%
Institutional Holdings	48.3%
Average Daily Volume	82,485
Indicated Dividend	\$0.00
Dividend Yield	0.0%
Total Enterprise Value (TEV) (mm)	\$429.3

Stock Price Performance

Source: FactSet

Res-Care, Inc.

Company Description

Headquartered in Louisville, KY, Res-Care provides residential, training, supported employment and educational services to 25,900 people with special needs. In 2000, the company generated \$865.8 million in revenues. Since 1978, the company's Disabilities Services division has served people with disabilities, originally in larger facilities, then expanding into smaller group homes and home-based programs. Res-Care operates programs under contracts with state and local agencies and not-for-profit providers and is often reimbursed by Medicaid. Res-Care's Youth Services division operates 15 Job Corps centers, delivering academic and vocational training, under contract with the Department of Labor. The Youth Services division offers residential treatment to at-risk children, including those with mental health and behavioral problems and those who have already entered the juvenile justice system. Under the Youth Services division, the Alternative Youth Services subsidiary operates foster care programs, alternative schools and emergency shelters, while the YouthTrack subsidiary operates secure and staff-secure detention programs. Res-Care owns approximately 300 properties and leases 2,100. Disabilities Services represented 79% of revenues in 2000. Youth Services accounted for 7%, and Job Corps 14%.

Financial Performance

From 1998 to 2000 revenues grew from \$702.9 million to \$865.8 million, slowing as the company refocused on internal growth instead of acquisition. Gross margin dropped from 14.0% in 1998 to 9.9% for the first nine months of 2001. Earnings per share dropped from \$0.90 in 1998 to \$0.58 in 2000.

For the third quarter of 2001, earnings per share were \$0.14, versus \$0.13 a year ago. For the nine months, EPS were \$0.26, versus \$0.49 last year. Revenues for the nine months were 3.6% higher than last year, and 2.9% higher over the third quarter last year. Revenues for the third quarter 2001 were \$224.8 million, up from \$218.2 million last year. In 2000, the company shifted from increased borrowing to net repayment of debt, reducing debt as a percent of capital from 63% at year-end 1999 to 55% at the end of September 2001. In November 2001, Res-Care completed a private placement of \$150.0 million in senior notes. A portion of the proceeds was used to repay existing borrowing and to repurchase other outstanding notes. The company also obtained a new \$80.0 million credit facility.

Res-Care					
RSCR					
Fiscal Year End December 31				9 Months	
Statement of Operations (in 000's)	1998	1999	2000	2000 YTD	2001 YTD
Revenues	702,914	824,479	865,796	642,484	665,529
<u>Cost Related to Revenues</u>	<u>(604,760)</u>	<u>(716,469)</u>	<u>(763,576)</u>	<u>(564,097)</u>	<u>(599,604)</u>
Gross Profit Margin	98,154	108,010	102,220	78,387	65,925
Overhead	(27,590)	(27,726)	(28,111)	(20,572)	(23,723)
<u>Other Income (Expenses) -- (JV or NC)</u>	<u>307</u>	<u>(40)</u>	<u>(270)</u>	<u>(304)</u>	<u>834</u>
Operating Income (Loss) -- (EBITDA)	70,871	80,244	73,839	57,511	43,036
Dep & Am	(18,561)	(21,107)	(22,308)	(16,635)	(16,038)
Extraordinary Items	-	(20,498)	(4,149)	(3,670)	(1,729)
<u>Net Interest (Expense) Income</u>	<u>(13,894)</u>	<u>(18,750)</u>	<u>(22,559)</u>	<u>(16,932)</u>	<u>(14,187)</u>
Income (Loss) from Continuing Operations Before Taxes	38,416	19,889	24,823	20,274	11,082
(Provision) Benefit for Income Taxes	(15,484)	(10,153)	(10,647)	(8,413)	(4,821)
Income (Loss) from Continuing Operations	22,932	9,736	14,176	11,861	6,261
Income (Loss) from Discont. Ops., Extraordinary Items, Other	-	(3,398)	-	-	-
<u>Minority Interest</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Income	22,932	6,338	14,176	11,861	6,261
Preferred Dividends	-	-	-	-	-
Net Income to Common	22,932	6,338	14,176	11,861	6,261
EPS					
Income (Loss) from Continuing Operations - Basic	0.96	0.26	0.58	0.49	0.26
Income (Loss) from Continuing Operations - Diluted	0.90	0.25	0.58	0.49	0.26
Weighted Average of Common Stock Outstanding - Basic	23,898	24,184	24,309	24,306	24,351
Weighted Average of Common Stock Outstanding - Diluted	31,225	24,970	24,354	24,376	24,474
Balance Sheet Data (in 000's)				09/30/01	
Cash	10,376	7,057	33,415		9,107
Total Current Assets	156,198	170,556	202,619		194,706
Goodwill and Other Intangibles	213,723	220,493	218,012		210,864
Total Assets	493,793	523,131	536,106		501,767
Total Current Liabilities	80,712	68,415	80,314		105,778
Debt Current Portion	6,297	6,047	2,499		18,506
Long Term Debt	233,847	276,537	261,299		204,190
Total Debt	240,144	282,584	263,798		222,696
Preferred Equity	-	-	-		-
Common Equity	154,587	163,384	178,123		184,715
Total Equity	154,587	163,384	178,123		184,715
Profitability Analysis				9 Months	
	1998	1999	2000	2000 YTD	2001 YTD
Revenues	100.0%	100.0%	100.0%	100.0%	100.0%
Cost Related to Revenues	-86.0%	-86.9%	-88.2%	-87.8%	-90.1%
Gross Profit Margin	14.0%	13.1%	11.8%	12.2%	9.9%
Overhead	-3.9%	-3.4%	-3.2%	-3.2%	-3.6%
Other Income (Expenses) -- (JV or NC)	0.0%	0.0%	0.0%	0.0%	0.1%
Operating Income (Loss) -- (EBITDA)	10.1%	9.7%	8.5%	9.0%	6.5%
Dep & Am	-2.6%	-2.6%	-2.6%	-2.6%	-2.4%
Extraordinary Items	0.0%	-2.5%	-0.5%	-0.6%	-0.3%
Net Interest (Expense) Income	-2.0%	-2.3%	-2.6%	-2.6%	-2.1%
Income (Loss) from Continuing Operations Before Taxes	5.5%	2.4%	2.9%	3.2%	1.7%
(Provision) Benefit for Income Taxes	-2.2%	-1.2%	-1.2%	-1.3%	-0.7%
Income (Loss) from Continuing Operations	3.3%	1.2%	1.6%	1.8%	0.9%
Income (Loss) from Discont. Ops., Extraordinary Items, Other	0.0%	-0.4%	0.0%	0.0%	0.0%
Minority Interest	0.0%	0.0%	0.0%	0.0%	0.0%
Net Income	3.3%	0.8%	1.6%	1.8%	0.9%
Capital Structure				9/30/01	
Funded Debt/EBITDA	3.4x	3.5x	3.6x		3.9x
Working Capital/Total Assets	15%	20%	23%		18%
Debt/Total Capital	61%	63%	60%		55%

Wackenhut Corrections Corporation

Price as of 12/31/01

\$13.86

Ticker Symbol

WHC (NYSE)**Henry J. Coffey, Jr., CFA**615.238.2307
hcoffey@mlga.com**Carrington Fox**615.238.2308
cfox@mlga.com

Key Data

Market Cap (mm)	\$290.7
52-Week Range	\$6.81-16.60
Shares Outstanding (mm)	21.0
Estimated Float	39.3%
Insider Ownership	60.7%
Institutional Holdings	29.1%
Average Daily Volume	32,943
Indicated Dividend	\$0.00
Dividend Yield	0.0%
Total Enterprise Value (TEV) (mm)	\$267.9

Stock Price Performance



Source: FactSet

Company Description

Based in Palm Beach Gardens, FL, Wackenhut Corrections Corporation has contracts to manage approximately 56 correctional and mental health facilities in North America, Europe, Australia, South Africa and New Zealand. With nearly 39,000 beds under management, Wackenhut Corrections claims approximately 23% of the U.S. market share and 27% of the global share.

In 2000, the firm generated \$535.6 million in revenues, approximately 20% of which were from international operations. The firm delivers programs for the design, construction and finance of correctional facilities for adult, juvenile and geriatric inmates. Wackenhut Corrections also provides a range of services to the corrections field, including transportation, medical and mental health services, and community corrections services such as electronic monitoring. Wackenhut Corrections' subsidiary Atlantic Shores Healthcare completed its South Florida Psychiatric Hospital in 2000. Wackenhut Corrections is 57%-owned by **The Wackenhut Corporation (WAK -- \$24.80 -- NYSE)**.

Financial Performance

Revenues at Wackenhut grew from \$312.8 million in 1998 to \$535.6 million in 2000. Gross margin fell from 13.1% in 1998 to 10.6% for the first nine months of 2001. Earnings per share fell between 1999 and 2000, from \$1.00 to \$0.80.

EPS for the third quarter in 2001 were \$0.27 versus \$0.11 last year. For the first nine months of 2001, EPS were \$0.65, versus \$0.56 last year. Revenues for the first nine months of 2001 were up 4.7% over last year, driven by new facilities opened in July 2000 and offset by lower construction revenue. For the third quarter 2001, revenues were also up 4.7% over last year as the result of the new facilities. Wackenhut has no on-balance-sheet debt of any note, but does fund its owned prisons through a \$220.0 million operating lease facility.

Wackenhut Corrections					
WHC					
Fiscal Year End December 31				9 Months	
Statement of Operations (in 000's)	1998	1999	2000	2000 YTD	2001 YTD
Revenues	312,759	438,484	535,557	400,271	418,925
Cost Related to Revenues	(271,840)	(389,325)	(483,035)	(360,925)	(374,610)
Gross Profit Margin	40,919	49,159	52,522	39,346	44,315
SG&A	(14,851)	(17,763)	(21,122)	(16,642)	(18,783)
Other Income (Expenses) -- (JV or NC)	-	-	-	641	-
Operating Income (Loss) -- (EBITDA)	26,068	31,396	31,400	23,345	25,532
Dep & Am	(3,567)	(5,355)	(8,639)	(6,370)	(7,526)
Extraordinary Items and Other	-	2,608	(3,208)	(3,849)	-
Net Interest (Expense) Income	2,410	2,454	1,303	1,063	588
Income (Loss) from Continuing Operations Before Taxes	24,911	31,103	20,856	14,189	18,594
(Provision) Benefit for Income Taxes	(10,164)	(12,472)	(8,352)	(5,666)	(7,246)
Income (Loss) from Continuing Operations	14,747	18,631	12,504	8,523	11,348
Income (Loss) from Discont. Ops., Extraordinary Items, Other	(9,447)	3,309	4,490	3,477	2,450
Minority Interest	-	-	-	-	-
Net Income	5,300	21,940	16,994	12,000	13,798
Preferred Dividends	-	-	-	-	-
Net Income to Common	5,300	21,940	16,994	12,000	13,798
EPS					
Income (Loss) from Continuing Operations - Basic	0.24	1.01	0.81	0.57	0.66
Income (Loss) from Continuing Operations - Diluted	0.23	1.00	0.80	0.56	0.65
Weighted Average of Common Stock Outstanding - Basic	22,119	21,652	21,110	21,142	21,040
Weighted Average of Common Stock Outstanding - Diluted	22,683	22,015	21,251	21,290	21,259
Balance Sheet Data (in 000's)					
	1998	1999	2000	09/30/01	
Cash	20,240	41,029	33,821		22,812
Total Current Assets	94,464	134,893	129,637		133,378
Goodwill and Other Intangibles	2,011	1,776	1,398		1,100
Total Assets	151,282	204,425	223,571		213,344
Total Current Liabilities	31,419	55,516	73,636		76,337
Debt Current Portion	13	-	-		-
Long Term Debt	200	15,000	10,000		-
Total Debt	213	15,000	10,000		-
Preferred Equity	-	-	-		-
Common Equity	102,940	118,684	127,164		124,726
Total Equity	102,940	118,684	127,164		124,726
Profitability Analysis					
	1998	1999	2000	9 Months	
				2000 YTD	2001 YTD
Revenues	100.0%	100.0%	100.0%	100.0%	100.0%
Cost Related to Revenues	-86.9%	-88.8%	-90.2%	-90.2%	-89.4%
Gross Profit Margin	13.1%	11.2%	9.8%	9.8%	10.6%
SG&A	-4.7%	-4.1%	-3.9%	-4.2%	-4.5%
Other Income (Expenses) -- (JV or NC)	0.0%	0.0%	0.0%	0.2%	0.0%
Operating Income (Loss) -- (EBITDA)	8.3%	7.2%	5.9%	5.8%	6.1%
Dep & Am	-1.1%	-1.2%	-1.6%	-1.6%	-1.8%
Extraordinary Items and Other	0.0%	0.6%	-0.6%	-1.0%	0.0%
Net Interest (Expense) Income	0.8%	0.6%	0.2%	0.3%	0.1%
Income (Loss) from Continuing Operations Before Taxes	8.0%	7.1%	3.9%	3.5%	4.4%
(Provision) Benefit for Income Taxes	-3.2%	-2.8%	-1.6%	-1.4%	-1.7%
Income (Loss) from Continuing Operations	4.7%	4.2%	2.3%	2.1%	2.7%
Income (Loss) from Discont. Ops., Extraordinary Items, Other	-3.0%	0.8%	0.8%	0.9%	0.6%
Minority Interest	0.0%	0.0%	0.0%	0.0%	0.0%
Net Income	1.7%	5.0%	3.2%	3.0%	3.3%
Capital Structure					
	1998	1999	2000	9/30/01	
Funded Debt/EBITDA	0.0x	0.5x	0.3x		0.0x
Working Capital/Total Assets	42%	39%	25%		27%
Debt/Total Capital	0%	11%	7%		0%

APPENDIX 3: Industry Comparables

Exhibit 24 Industry Capitalization and Operating Data

Company	Ticker	Price 12/31/01	% of 52 Wk. High	% of 5 Yr. High	Total Enterprise Value						LTM				
					Common Equity	Pfd. + Stock	Total + Debt	Cash - Eqv.	Total = Ent.Val.	Revenue	EBITDA	Net Income	EBITDA	Margin Net Inc.	
America Service Group Inc.	ASGR	\$7.63	27.0%	26.3%	\$41.4	\$ -	\$ 63.0	\$1.6	\$102.8	\$532.4	\$5.1	\$ (14.8)	1.0%	-2.8%	
Avalon Correctional Services, Inc.	CITY	1.99	79.6%	36.2%	9.6	-	28.4	1.2	36.9	24.8	6.2	1.2	25.0%	4.9%	
Cornell Companies, Inc.	CRN/n	17.65	95.9%	69.4%	219.4	-	-	48.5	170.9	255.5	32.9	6.3	12.9%	2.5%	
Correctional Properties Trust	CPV/n	16.90	97.5%	72.1%	120.8	-	80.0	8.9	191.9	25.6	24.1	8.7	94.0%	33.8%	
Correctional Services Corporation	CSCQ	1.99	63.6%	11.8%	20.2	-	17.9	0.1	38.0	184.4	3.7	(5.2)	2.0%	-2.8%	
Corrections Corporation of America	CXW/n	18.56	96.4%	4.2%	466.4	154.9	994.9	43.4	1572.8	979.1	193.9	NM	19.8%	NM	
Ramsay Youth Services, Inc.	RYOU	4.03	77.4%	22.4%	38.1	-	30.0	1.4	66.7	131.0	11.5	4.7	8.8%	3.6%	
Res-Care, Inc.	RSCR	8.85	90.3%	33.4%	215.7	-	222.7	9.1	429.3	888.8	59.4	8.6	6.7%	1.0%	
Wackenhut Corrections Corporation	WHC/n	13.86	83.5%	38.5%	290.7	-	-	22.8	267.9	554.2	33.6	18.8	6.1%	3.4%	
Maximum													94.0%	33.8%	
Median													8.8%	2.9%	
Mean													19.6%	5.4%	
Minimum													1.0%	-2.8%	

n = NYSE

All numbers except per share amounts in millions

Source: Thomson Financial and company documents

Exhibit 25 Valuation Statistics

Company	Ticker	Price 12/31/01	Revenue Multiple	EBITDA Multiple	CAGR 2 year		EPS			P/E			Book Value ³	Price/ Book	Total Debt/ EBITDA	Total Debt/ Ent Value
					Revs	EBITDA	LTM	2001 ¹	2002 ¹	LTM	2001 ¹	2002 ¹				
America Service Group Inc.	ASGR	\$7.63	0.2x	20.2x	83.6%	276.1%	\$ (2.90)	\$ (0.53)	\$ 0.28	NM	NM	27.3x	\$ 4.47	1.7x	12.4x	152.1%
Avalon Correctional Services, Inc.	CITY	1.99	1.5x	6.0x	72.7%	94.5%	0.24	NA	NA	8.3	NA	NA	1.77	1.1	4.6	294.8%
Cornell Companies, Inc.	CRN/n	17.65	0.7x	5.2x	35.5%	47.0%	0.65	0.90	1.05	27.2	19.6	11.8	11.66	1.5	-	0.0%
Correctional Properties Trust	CPV/n	16.90	7.5x	8.0x	62.2%	67.5%	1.21	2.16	2.35	14.0	7.8	7.2	17.35	1.0	3.3	66.3%
Correctional Services Corporation	CSCQ	1.99	0.2x	10.2x	5.8%	NM	(0.52)	NA	NA	NM	NA	NA	4.65	0.4	4.8	88.7%
Corrections Corporation of America	CXW/n	18.56	1.6x	8.1x	NM	NM	NM	(0.42)	(0.04)	NM	NM	NM	16.42	1.1	5.1	213.3%
Ramsay Youth Services, Inc.	RYOU	4.03	0.5x	5.8x	NM	NM	0.50	NA	NA	8.1	NA	NA	2.45	1.6	2.6	78.7%
Res-Care, Inc.	RSCR	8.85	0.5x	7.2x	11.0%	2.1%	0.35	0.43	0.61	25.3	20.6	14.5	7.58	1.2	3.8	103.2%
Wackenhut Corrections Corporation	WHC/n	13.86	0.5x	8.0x	30.9%	9.8%	0.89	0.90	1.04	15.6	15.4	13.3	5.91	2.3	0.0	0.0%
Maximum			7.5x	20.2x	83.6%	276.1%				27.2x	20.6x	27.3x		2.3x	12.4x	294.8%
Median			0.5	8.0	35.5%	57.3%				14.8	17.5	13.3		1.2	3.8	88.7%
Mean			1.5	8.7	43.1%	82.8%				16.4	15.9	14.8		1.3	4.1	110.8%
Minimum			0.2	5.2	5.8%	2.1%				8.1	7.8	7.2		0.4	0.0	0.0%

¹ Based on Consensus Estimates² Book Value for Corrections Corp. assumes full impact of shares to be issued in litigation and conversion of convertible debt.

Source: Thomson Financial and company documents

Equity Research Team

Sector / Analyst	Telephone	e-mail
Diversified Industrials Devlin Lander	212.218.3759	dlander@mlga.com
Financial Services Henry J. Coffey, Jr., CFA	615.238.2307	hcoffey@mlga.com
Private Corrections Henry J. Coffey, Jr., CFA	615.238.2307	hcoffey@mlga.com
Retail and Consumer Carole Cranmer	212.218.3752	ccranmer@mlga.com
Truck Transportation and Logistics Michael R. LaTronica	212.218.3760	mlatronica@mlga.com
Special Situations David A. Jones Carrington Fox Angela Scott	615.238.2310 615.238.2308 615.238.2309	djones@mlga.com cfox@mlga.com ascott@mlga.com

Locations

City	Telephone	Facsimile
New York 600 Fifth Avenue, 19 th Floor New York, NY 10020	212.218.3700	212.218.3718
Nashville 150 Fourth Avenue North, Suite 1050 Nashville, TN 37219	615.238.2300	615.238.2301

www.mlga.com

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