

CORRECTIONS CORP OF AMERICA

Form 10-Q

November 07, 2008



**CORRECTIONS CORPORATION OF AMERICA**  
**FORM 10-Q**  
**FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2008**  
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CONSOLIDATED BALANCE SHEETS**

(UNAUDITED AND AMOUNTS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	<b>September 30, 2008</b>	<b>December 31, 2007</b>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 28,736	\$ 57,968
Accounts receivable, net of allowance of \$3,059 and \$3,914, respectively	242,574	241,116
Deferred tax assets	14,789	12,250
Prepaid expenses and other current assets	20,700	21,133
Assets held for sale		7,581
Current assets of discontinued operations	175	615
Total current assets	<b>306,974</b>	340,663
Property and equipment, net	<b>2,456,949</b>	2,086,980
Restricted cash	6,669	6,511
Investment in direct financing lease	13,698	14,503
Goodwill	13,672	13,672
Other assets	21,907	23,411
Total assets	<b>\$ 2,819,869</b>	\$ 2,485,740
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Accounts payable and accrued expenses	\$ 219,021	\$ 212,749
Income taxes payable	8,905	964
Current portion of long-term debt	290	290
Current liabilities of discontinued operations	566	728
Total current liabilities	<b>228,782</b>	214,731
Long-term debt, net of current portion	<b>1,155,460</b>	975,677
Deferred tax liabilities	42,884	34,271
Other liabilities	39,505	39,086
Total liabilities	<b>1,466,631</b>	1,263,765
Commitments and contingencies		
Common stock \$0.01 par value; 300,000 shares authorized; 125,597 and 124,472 shares issued and outstanding at September 30, 2008 and December 31, 2007, respectively	<b>1,256</b>	1,245
Additional paid-in capital	<b>1,589,572</b>	1,568,736

Retained deficit	<b>(237,590)</b>	(348,006)
Total stockholders' equity	<b>1,353,238</b>	1,221,975
Total liabilities and stockholders' equity	<b>\$ 2,819,869</b>	\$ 2,485,740

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

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**CORRECTIONS CORPORATION OF AMERICA AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
(UNAUDITED AND AMOUNTS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	<b>For the Three Months Ended September 30,</b>		<b>For the Nine Months Ended September 30,</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
<b>REVENUE:</b>				
Management and other	\$ 410,664	\$ 377,069	\$ 1,193,530	\$ 1,085,158
Rental	1,221	1,187	3,617	3,375
	<b>411,885</b>	<b>378,256</b>	<b>1,197,147</b>	<b>1,088,533</b>
<b>EXPENSES:</b>				
Operating	292,599	273,450	850,220	778,937
General and administrative	20,866	18,362	60,222	54,497
Depreciation and amortization	23,564	20,074	67,152	57,272
	<b>337,029</b>	<b>311,886</b>	<b>977,594</b>	<b>890,706</b>
<b>OPERATING INCOME</b>	<b>74,856</b>	<b>66,370</b>	<b>219,553</b>	<b>197,827</b>
<b>OTHER EXPENSES (INCOME):</b>				
Interest expense, net	15,087	13,249	42,671	40,838
Other income	(360)	(200)	(356)	(281)
	<b>14,727</b>	<b>13,049</b>	<b>42,315</b>	<b>40,557</b>
<b>INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES</b>	<b>60,129</b>	<b>53,321</b>	<b>177,238</b>	<b>157,270</b>
Income tax expense	(22,038)	(20,170)	(66,765)	(59,275)
<b>INCOME FROM CONTINUING OPERATIONS</b>	<b>38,091</b>	<b>33,151</b>	<b>110,473</b>	<b>97,995</b>
Income (loss) from discontinued operations, net of tax	(200)	104	(57)	432
<b>NET INCOME</b>	<b>\$ 37,891</b>	<b>\$ 33,255</b>	<b>\$ 110,416</b>	<b>\$ 98,427</b>
<b>BASIC EARNINGS PER SHARE:</b>				

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Income from continuing operations	\$	<b>0.30</b>	\$	0.27	\$	<b>0.89</b>	\$	0.81
Income (loss) from discontinued operations, net of taxes								
Net income	\$	<b>0.30</b>	\$	0.27	\$	<b>0.89</b>	\$	0.81

**DILUTED EARNINGS PER SHARE:**

Income from continuing operations	\$	<b>0.30</b>	\$	0.26	\$	<b>0.87</b>	\$	0.79
Income (loss) from discontinued operations, net of taxes								
Net income	\$	<b>0.30</b>	\$	0.26	\$	<b>0.87</b>	\$	0.79

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

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**CORRECTIONS CORPORATION OF AMERICA AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(UNAUDITED AND AMOUNTS IN THOUSANDS)

	For the Nine Months Ended September 30,	
	<b>2008</b>	2007
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 110,416	\$ 98,427
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	67,152	57,272
Amortization of debt issuance costs and other non-cash interest	2,900	2,972
Deferred income taxes	4,924	4,697
Income tax benefit of equity compensation	(8,800)	(17,672)
Other income	(356)	(281)
Non-cash equity compensation	7,205	5,369
Other non-cash items	674	223
Changes in assets and liabilities, net:		
Accounts receivable, prepaid expenses and other assets	(499)	22,648
Accounts payable, accrued expenses and other liabilities	22,518	22,823
Income taxes payable	16,741	18,362
Net cash provided by operating activities	<b>222,875</b>	214,840
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Expenditures for facility development and expansions	(423,423)	(161,645)
Expenditures for other capital improvements	(23,118)	(32,442)
Decrease in restricted cash		5,641
Proceeds from sale of investments		10,000
Purchases of investments		(3,205)
Proceeds from sale of assets	85	48
Increase in other assets	83	(967)
Payments received on direct financing leases and notes receivable	713	631
Net cash used in investing activities	<b>(445,660)</b>	(181,939)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from issuance of debt	223,500	
Principal repayments of debt	(43,500)	
Payment of debt issuance costs	(89)	
Income tax benefit of equity compensation	8,800	17,672
Purchase and retirement of common stock	(3,367)	(3,579)
Proceeds from exercise of stock options and warrants	8,209	13,328
Net cash provided by financing activities	<b>193,553</b>	27,421



<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(29,232)</b>	60,322
<b>CASH AND CASH EQUIVALENTS, beginning of period</b>	<b>57,968</b>	29,121
<b>CASH AND CASH EQUIVALENTS, end of period</b>	<b>\$ 28,736</b>	\$ 89,443

**SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:**

Cash paid during the period for:

Interest (net of amounts capitalized of \$11,282 and \$4,788 in 2008 and 2007, respectively)	<b>\$ 42,008</b>	\$ 46,269
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Income taxes	<b>\$ 39,474</b>	\$ 31,331
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**CORRECTIONS CORPORATION OF AMERICA AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2008**  
(UNAUDITED AND AMOUNTS IN THOUSANDS)

	Common Stock		Additional	Retained	Total
	Shares	Par Value	Paid-in Capital	Deficit	
Balance as of December 31, 2007	124,472	\$ 1,245	\$ 1,568,736	\$ (348,006)	\$ 1,221,975
Comprehensive income:					
Net income				110,416	110,416
Total comprehensive income				110,416	110,416
Issuance of common stock	1		19		19
Retirement of common stock	(126)	(1)	(3,366)		(3,367)
Amortization of deferred compensation, net of forfeitures	(29)		4,397		4,397
Income tax benefit of equity compensation			8,800		8,800
Stock option compensation expense			2,789		2,789
Restricted stock grant	279	2	(2)		
Stock options exercised	1,000	10	8,199		8,209
<b>Balance as of September 30, 2008</b>	<b>125,597</b>	<b>\$ 1,256</b>	<b>\$ 1,589,572</b>	<b>\$ (237,590)</b>	<b>\$ 1,353,238</b>

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**CORRECTIONS CORPORATION OF AMERICA AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2007**  
(UNAUDITED AND AMOUNTS IN THOUSANDS)

	<b>Common Stock</b>		<b>Additional</b>	<b>Retained</b>	<b>Total</b>
	<b>Shares</b>	<b>Par Value</b>	<b>Paid-in Capital</b>	<b>Deficit</b>	
Balance as of December 31, 2006	122,084	\$ 1,221	\$ 1,527,608	\$ (479,148)	\$ 1,049,681
Comprehensive income:					
Net income				98,427	98,427
Total comprehensive income				98,427	98,427
Issuance of common stock	1		19		19
Retirement of common stock	(130)	(1)	(3,578)		(3,579)
Amortization of deferred compensation, net of forfeitures	(123)	(1)	3,717		3,716
Income tax benefit of equity compensation			17,672		17,672
Stock option compensation expense			1,634		1,634
Warrants exercised	75	1	832		833
Restricted stock grant	312	3	(3)		
Stock options exercised	1,832	18	12,477		12,495
Cumulative effect of accounting change				(2,231)	(2,231)
<b>Balance as of September 30, 2007</b>	<b>124,051</b>	<b>\$ 1,241</b>	<b>\$ 1,560,378</b>	<b>\$ (382,952)</b>	<b>\$ 1,178,667</b>

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**CORRECTIONS CORPORATION OF AMERICA AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2008**

**1. ORGANIZATION AND OPERATIONS**

As of September 30, 2008, Corrections Corporation of America, a Maryland corporation (together with its subsidiaries, the Company), owned 45 correctional, detention and juvenile facilities, three of which are leased to other operators. As of September 30, 2008, the Company operated 65 facilities, including 42 facilities that it owned, located in 19 states and the District of Columbia. The Company is also constructing an additional 2,232-bed facility in Adams County, Mississippi that is expected to be completed in the fourth quarter of 2008, a 3,060-bed facility in Eloy, Arizona that is expected to be completed in the first quarter of 2009, and a 2,040-bed facility in Trousdale County, Tennessee that is expected to be completed in the first quarter of 2010. Further, during the second quarter of 2008 the Company was awarded a contract by the Office of Federal Detention Trustee to design, build, and operate a new correctional facility in Pahrump, Nevada, which is currently expected to be completed during the second quarter of 2010.

The Company specializes in owning, operating and managing prisons and other correctional facilities and providing inmate residential and prisoner transportation services for governmental agencies. In addition to providing the fundamental residential services relating to inmates, the Company's facilities offer a variety of rehabilitation and educational programs,