

CORRECTIONS CORP OF AMERICA

Form 10-Q

August 04, 2016

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

FOR THE QUARTERLY PERIOD ENDED: JUNE 30, 2016

OR

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

FOR THE TRANSITION PERIOD FROM _____ TO _____

COMMISSION FILE NUMBER: 001-16109

CORRECTIONS CORPORATION OF AMERICA

(Exact name of registrant as specified in its charter)

MARYLAND
(State or other jurisdiction of
incorporation or organization)
10 BURTON HILLS BLVD., NASHVILLE, TENNESSEE 37215
(Address and zip code of principal executive offices)
(615) 263-3000
(Registrant's telephone number, including area code)

62-1763875
(I.R.S. Employer
Identification Number)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

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

Large accelerated filer Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Indicate the number of shares outstanding of each class of Common Stock as of July 29, 2016:

Shares of Common Stock, \$0.01 par value per share: 117,522,538 shares outstanding.

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CORRECTIONS CORPORATION OF AMERICA

FORM 10-Q

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2016

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Table of Contents**PART I FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS.****CORRECTIONS CORPORATION OF AMERICA AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS**

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

	June 30, 2016	December 31, 2015
<u>ASSETS</u>		
Cash and cash equivalents	\$ 70,843	\$ 65,291
Restricted cash		877
Accounts receivable, net of allowance of \$1,645 and \$459, respectively	221,427	234,456
Prepaid expenses and other current assets	32,995	41,434
Total current assets	325,265	342,058
Property and equipment, net	2,870,150	2,883,060
Restricted cash	218	131
Investment in direct financing lease		684
Goodwill	38,415	35,557
Non-current deferred tax assets	7,774	9,824
Other assets	85,928	84,704
Total assets	\$ 3,327,750	\$ 3,356,018
<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>		
Accounts payable and accrued expenses	\$ 332,859	\$ 317,675
Income taxes payable	1,139	1,920
Current portion of long-term debt	7,500	5,000
Total current liabilities	341,498	324,595
Long-term debt, net	1,448,142	1,447,077
Deferred revenue	45,608	63,289
Other liabilities	47,875	58,309
Total liabilities	1,883,123	1,893,270
Commitments and contingencies		
Preferred stock \$0.01 par value; 50,000 shares authorized; none issued and outstanding at June 30, 2016 and December 31, 2015, respectively	1,175	1,172

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Common stock	\$0.01 par value; 300,000 shares authorized; 117,520 and 117,232 shares issued and outstanding at June 30, 2016 and December 31, 2015, respectively		
Additional paid-in capital		1,768,321	1,762,394
Accumulated deficit		(324,869)	(300,818)
Total stockholders' equity		1,444,627	1,462,748
Total liabilities and stockholders' equity		\$ 3,327,750	\$ 3,356,018

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

Table of Contents**CORRECTIONS CORPORATION OF AMERICA AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF OPERATIONS**

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

	For the Three Months Ended		For the Six Months Ended	
	June 30,		June 30,	
	2016	2015	2016	2015
REVENUES	\$ 463,331	\$ 459,295	\$ 910,716	\$ 885,295
EXPENSES:				
Operating	316,446	318,035	630,364	618,697
General and administrative	27,364	23,107	53,844	49,979
Depreciation and amortization	42,345	38,400	84,404	67,085
Asset impairments				955
	386,155	379,542	768,612	736,716
OPERATING INCOME	77,176	79,753	142,104	148,579
OTHER EXPENSE:				
Interest expense, net	16,796	11,761	34,340	21,951
Other expense	132	36	49	10
	16,928	11,797	34,389	21,961
INCOME BEFORE INCOME TAXES	60,248	67,956	107,715	126,618
Income tax expense	(2,665)	(2,653)	(3,825)	(4,038)
NET INCOME	\$ 57,583	\$ 65,303	\$ 103,890	\$ 122,580
BASIC EARNINGS PER SHARE	\$ 0.49	\$ 0.56	\$ 0.89	\$ 1.05
DILUTED EARNINGS PER SHARE	\$ 0.49	\$ 0.55	\$ 0.88	\$ 1.04
DIVIDENDS DECLARED PER SHARE	\$ 0.54	\$ 0.54	\$ 1.08	\$ 1.08

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

Table of Contents**CORRECTIONS CORPORATION OF AMERICA AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS**

(UNAUDITED AND AMOUNTS IN THOUSANDS)

	For the Six Months Ended June 30,	
	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 103,890	\$ 122,580
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	84,404	67,085
Asset impairments		955
Amortization of debt issuance costs and other non-cash interest	1,577	1,552
Deferred income taxes	2,050	2,611
Non-cash revenue and other income	(2,204)	(991)
Income tax benefit of equity compensation	(25)	(475)
Non-cash equity compensation	7,873	7,708
Other expenses and non-cash items	2,192	2,213
Changes in assets and liabilities, net:		
Accounts receivable, prepaid expenses and other assets	22,079	6,124
Accounts payable, accrued expenses and other liabilities	(7,754)	5,692
Income taxes payable	(756)	193
Net cash provided by operating activities	213,326	215,247
CASH FLOWS FROM INVESTING ACTIVITIES:		
Expenditures for facility development and expansions	(18,725)	(112,548)
Expenditures for other capital improvements	(20,695)	(25,889)
Capitalized lease payments		(24,592)
Acquisition of businesses, net of cash acquired	(43,618)	
Decrease in restricted cash	240	603
Proceeds from sale of assets	8,192	57
Decrease in other assets	833	1,922
Payments received on direct financing lease and notes receivable	1,231	1,091
Net cash used in investing activities	(72,542)	(159,356)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of debt	201,000	160,000
Principal repayments of debt	(198,500)	(122,000)
Payment of debt issuance and other refinancing and related costs	(68)	(134)
Payment of lease obligations	(6,702)	
Contingent consideration for acquisition of businesses	(1,073)	
Dividends paid	(128,550)	(124,261)

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Income tax benefit of equity compensation	25	475
Purchase and retirement of common stock	(3,947)	(9,432)
Decrease in restricted cash for dividends	550	500
Proceeds from exercise of stock options	2,033	5,637
Net cash used in financing activities	(135,232)	(89,215)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	5,552	(33,324)
CASH AND CASH EQUIVALENTS, beginning of period	65,291	74,393
CASH AND CASH EQUIVALENTS, end of period	\$ 70,843	\$ 41,069

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:

Cash paid during the period for:		
Interest (net of amounts capitalized of \$164 and \$2,792 in 2016 and 2015, respectively)	\$ 28,655	\$ 18,609
Income taxes paid (refunded)	\$ (10,520)	\$ 6,706

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

Table of Contents**CORRECTIONS CORPORATION OF AMERICA AND SUBSIDIARIES****CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY****FOR THE SIX MONTHS ENDED JUNE 30, 2016**

(UNAUDITED AND AMOUNTS IN THOUSANDS)

	Common Stock		Additional	Accumulated	Total
	Shares	Par Value	Paid-in	Deficit	Stockholders
			Capital		Equity
Balance as of December 31, 2015	117,232	\$ 1,172	\$ 1,762,394	\$ (300,818)	\$ 1,462,748
Net income				103,890	103,890
Retirement of common stock	(134)	(1)	(3,946)		(3,947)
Dividends declared on common stock (\$1.08 per share)				(127,998)	(127,998)
Restricted stock compensation, net of forfeitures	(1)		7,720	57	7,777
Income tax benefit of equity compensation			25		25
Stock option compensation expense, net of forfeitures			96		96
Restricted stock grants	310	3			3
Stock options exercised	113	1	2,032		2,033
Balance as of June 30, 2016	117,520	\$ 1,175	\$ 1,768,321	\$ (324,869)	\$ 1,444,627

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

Table of Contents**CORRECTIONS CORPORATION OF AMERICA AND SUBSIDIARIES****CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY****FOR THE SIX MONTHS ENDED JUNE 30, 2015**

(UNAUDITED AND AMOUNTS IN THOUSANDS)

	Common Stock		Additional	Accumulated	Total
	Shares	Par Value	Paid-in	Deficit	Stockholders
			Capital		Equity
Balance as of December 31, 2014	116,764	\$ 1,168	\$ 1,748,303	\$ (267,971)	\$ 1,481,500
Net income				122,580	122,580
Retirement of common stock	(235)	(3)	(9,429)		(9,432)
Dividends declared on common stock (\$1.08 per share)				(127,310)	(127,310)
Restricted stock compensation, net of forfeitures	(6)		7,188	45	7,233
Income tax benefit of equity compensation			475		475
Stock option compensation expense, net of forfeitures			475		475
Restricted stock grants	296	3			3
Stock options exercised	300	3	5,634		5,637
Balance as of June 30, 2015	117,119	\$ 1,171	\$ 1,752,646	\$ (272,656)	\$ 1,481,161

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

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CORRECTIONS CORPORATION OF AMERICA AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

JUNE 30, 2016

1. ORGANIZATION AND OPERATIONS

Corrections Corporation of America (together with its subsidiaries, the Company or CCA) is the nation's largest owner of privatized correctional, detention, and residential reentry facilities and one of the largest prison operators in the United States. As of June 30, 2016, CCA owned or controlled 49 correctional and detention facilities, owned or controlled 25 residential reentry facilities, and managed an additional 11 correctional and detention facilities owned by its government partners, with a total design capacity of approximately 89,300 beds in 20 states and the District of Columbia.

CCA is a Real Estate Investment Trust (REIT) specializing in owning, operating and managing prisons and other correctional facilities and providing residential, community reentry, and prisoner transportation services for governmental agencies. In addition to providing fundamental residential services, CCA's facilities offer a variety of rehabilitation and educational programs, including basic education, faith-based services, life skills and employment training, and substance abuse treatment. These services are intended to help reduce recidivism and to prepare offenders for their successful reentry into society upon their release. CCA also provides or makes available to offenders certain health care (including medical, dental and mental health services), food services, and work and recreational programs.

CCA began operating as a REIT for federal income tax purposes effective January 1, 2013. The Company provides correctional services and conducts other business activities through taxable REIT subsidiaries (TRSs). A TRS is a subsidiary of a REIT that is subject to applicable corporate income tax and certain qualification requirements. The Company's use of TRSs enables CCA to comply with REIT qualification requirements while providing correctional services at facilities it owns and at facilities owned by its government partners and to engage in certain other business operations. A TRS is not subject to the distribution requirements applicable to REITs so it may retain income generated by its operations for reinvestment.

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying unaudited interim consolidated financial statements have been prepared by the Company and, in the opinion of management, reflect all normal recurring adjustments necessary for a fair presentation of results for the unaudited interim periods presented. Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles have been condensed or omitted. The results of operations for the interim period are not necessarily indicative of the results to be obtained for the full fiscal year. Reference is made to the audited financial statements of CCA included in its Annual Report on Form 10-K as of and for the year ended December 31, 2015 filed with the Securities and Exchange Commission (the SEC) on February 25, 2016 (File No. 001-16109) (the 2015 Form 10-K) with respect to certain significant accounting and financial reporting policies as well as other pertinent information of the Company.

Table of Contents**Recent Accounting Pronouncements**

In May 2014, the FASB issued Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers, which establishes a single, comprehensive revenue recognition standard for all contracts with customers. For public reporting entities such as CCA, ASU 2014-09 was originally effective for interim and annual periods beginning after December 15, 2016 and early adoption of the ASU was not permitted. In July 2015, the FASB agreed to defer the effective date of the ASU for public reporting entities by one year, or to interim and annual periods beginning after December 15, 2017. Early adoption is now allowed as of the original effective date for public companies. In summary, the core principle of ASU 2014-09 is to recognize revenue when promised goods or services are transferred to customers in an amount that reflects the consideration that is expected to be received for those goods or services. Companies are allowed to select between two transition methods: (1) a full retrospective transition method with the application of the new guidance to each prior reporting period presented, or (2) a modified retrospective transition method that recognizes the cumulative effect on prior periods at the date of adoption together with additional footnote disclosures. CCA is currently planning to adopt the standard when effective in its fiscal year 2018. CCA is reviewing the ASU to determine the potential impact it might have on the Company's results of operations or financial position and its related financial statement disclosures, along with evaluating which transition method will be utilized upon adoption.

In February 2016, the FASB issued ASU 2016-02, Leases (Accounting Standards Codification 842), which requires lessees to put most leases on their balance sheets but recognize expenses on their income statements in a manner similar to current accounting requirements. ASU 2016-02 also eliminates current real estate-specific provisions for all entities. For lessors, the ASU modifies the classification criteria and the accounting for sales-type and direct financing leases. For public reporting entities such as CCA, guidance in ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years, and early adoption of the ASU is permitted. Entities are required to use a modified retrospective approach for leases that exist or are entered into after the beginning of the earliest comparative period in the financial statements. CCA is currently planning to adopt the ASU when effective in its fiscal year 2019. CCA does not currently expect that the new standard will have a material impact on its financial statements.

In March 2016, the FASB issued ASU 2016-09, Improvements to Employee Share-Based Payment Accounting, that will change certain aspects of accounting for share-based payments to employees. ASU 2016-09 will require all income tax effects of awards to be recognized in the income statement when the awards vest or are settled. The new ASU will also allow an employer to repurchase more of an employee's shares than it can currently for tax withholding purposes without triggering liability accounting, and to make a policy election to account for forfeitures. Companies will be required to elect whether to account for forfeitures of share-based payments by (1) recognizing forfeitures of awards as they occur, or (2) estimating the number of awards expected to be forfeited and adjusting the estimate when it is likely to change, as is

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currently required. For public reporting entities such as CCA, guidance in ASU 2016-09 is effective for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years, and early adoption of the ASU is permitted. All of the guidance in the ASU must be adopted in the same period. CCA is evaluating the ASU and expects to adopt the ASU in the 2017 fiscal year, but does not expect that the new standard will have a material impact on its financial statements.

Fair Value of Financial Instruments

To meet the reporting requirements of Accounting Standards Codification (ASC) 825, Financial Instruments , regarding fair value of financial instruments, CCA calculates the estimated fair value of financial instruments using market interest rates, quoted market prices of similar instruments, or discounted cash flow techniques with observable Level 1 inputs for publicly traded debt and Level 2 inputs for all other financial instruments, as defined in ASC 820, Fair Value Measurement . At June 30, 2016 and December 31, 2015, there were no material differences between the carrying amounts and the estimated fair values of CCA s financial instruments, other than as follows (in thousands):

	June 30, 2016		December 31, 2015	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Investment in direct financing lease	\$ 1,992	\$ 2,063	\$ 3,223	\$ 3,408
Note receivable from Agecraft Prison Management, LTD	\$ 3,170	\$ 5,190	\$ 3,504	\$ 5,864
Debt	\$ (1,466,500)	\$ (1,497,906)	\$ (1,464,000)	\$ (1,452,719)

Revenue Recognition Multiple-Element Arrangement

In September 2014, CCA agreed to an expansion of an existing inter-governmental service agreement (IGSA) between the city of Eloy, Arizona and U.S. Immigration and Customs Enforcement (ICE) to provide residential space and services at the South Texas Family Residential Center. The amended IGSA qualifies as a multiple-element arrangement under the guidance in ASC 605, Revenue Recognition . CCA determined that there were five distinct elements related to the amended IGSA with ICE. In the three months ended June 30, 2016 and 2015, CCA recognized \$70.8 million and \$65.8 million, respectively, in revenue associated with the amended IGSA, while \$141.5 million and \$101.8 million in revenue was recognized in the six months ended June 30, 2016 and 2015, respectively. The unrecognized balance of the fixed monthly payments is reported in deferred revenue. The current portion of deferred revenue is reflected within accounts payable and accrued expenses while the long-term portion is reflected in deferred revenue in the accompanying consolidated balance sheets. As of June 30, 2016 and December 31, 2015, total deferred revenue associated with this agreement amounted to \$80.0 million and \$94.6 million, respectively.

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3. GOODWILL

ASC 350, Intangibles-Goodwill and Other, establishes accounting and reporting requirements for goodwill and other intangible assets. Goodwill was \$38.4 million and \$35.6 million as of June 30, 2016 and December 31, 2015, respectively. This goodwill was established in connection with the acquisitions of Correctional Management, Inc. (CMI) in the second quarter of 2016 and Avalon Correctional Services, Inc. (Avalon) in the fourth quarter of 2015, both as further described in Note 5, the acquisition of Correctional Alternatives, Inc. during 2013, and the acquisitions of two service companies during 2000.

Under the provisions of ASC 350, CCA performs a qualitative assessment that may allow it to skip the annual two-step impairment test. Under ASC 350, a company has the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If, after assessing the totality of events or circumstances, an entity determines it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the two-step impairment test is unnecessary. If the two-step impairment test is required, CCA determines the fair value of a reporting unit using a collaboration of various common valuation techniques, including market multiples and discounted cash flows. These impairment tests are required to be performed at least annually. CCA performs its impairment tests during the fourth quarter, in connection with its annual budgeting process. CCA will perform these impairment tests at least annually and whenever circumstances indicate the carrying value of goodwill may not be recoverable.

4. REAL ESTATE TRANSACTIONS

Activations

Pursuant to an agreement with Trousdale County, Tennessee, CCA agreed to finance, design, construct, and operate a 2,552-bed facility to meet the responsibilities of a separate IGSA between Trousdale County and the state of Tennessee regarding correctional services. CCA invested approximately \$144.0 million in the Trousdale Turner Correctional Center and construction was completed in the fourth quarter of 2015. In order to guarantee access to the beds at the facility, the IGSA with the state of Tennessee includes a minimum monthly payment plus a per diem payment for each inmate housed in the facility in excess of 90% of the design capacity following completion of the ramp, which is expected to be completed in the third quarter of 2016. CCA began housing state of Tennessee inmates at the newly activated facility in January 2016. As of June 30, 2016, CCA housed approximately 1,680 inmates at the Trousdale Turner Correctional Center.

In December 2015, CCA announced it was awarded a new contract from the Arizona Department of Corrections to house up to an additional 1,000 medium-security inmates at its 1,596-bed Red Rock Correctional Center in Arizona. In connection with the new contract, CCA is expanding its Red Rock facility to a design capacity of 2,024 beds and adding additional space for inmate reentry programming. Total cost of the expansion is

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estimated at approximately \$35.0 million to \$38.0 million, including \$22.8 million invested through June 30, 2016. Construction is expected to be completed late in the fourth quarter of 2016, although CCA began receiving inmates under the new contract during the third quarter of 2016.

On July 18, 2016, CCA announced that it received an award from the California Department of Corrections and Rehabilitation (CDCR) to house up to 120 residents as part of The Male Community Reentry Program (MCRP) at CCA's 120-bed CAI-Boston Avenue residential reentry facility in San Diego, California. The MCRP was designed by the CDCR to provide a range of community-based, rehabilitative services to help participants successfully reenter the community and reduce recidivism. The new contract commenced on August 1, 2016 and contains an initial term extending to June 30, 2018, with three one-year renewal options. In April 2016, CCA was awarded a contract to continue providing residential reentry services for the Federal Bureau of Prisons, which was a rebid of existing contracts at both of CCA's CAI facilities, CAI-Boston Avenue and CAI-Ocean View. During the contract rebid process, CCA identified an opportunity to consolidate BOP resident populations at both facilities into the 483-bed CAI-Ocean View facility in order to make available the CAI-Boston Avenue facility for other potential partners and more efficiently utilize available capacity.

Leasing Transactions

In May 2016, CCA entered into a lease for its previously idled 2,400-bed North Fork Correctional Facility with the Oklahoma Department of Corrections (ODOC). The lease agreement commenced on July 1, 2016, and includes a five-year base term with unlimited two-year renewal options. However, the lease agreement permitted the ODOC to utilize the facility for certain activation activities and, therefore, revenue recognition began upon execution of the lease. The average annual rent to be recognized during the base term is \$7.3 million, including annual rent in the fifth year of \$12.0 million. After the five-year base term, the annual rent will be equal to the rent due during the prior lease year, adjusted for increases in the Consumer Price Index (CPI). CCA is responsible for repairs and maintenance, property taxes and property insurance, while all other aspects and costs of facility operations are the responsibility of the ODOC.

Acquisitions

On June 10, 2016, CCA acquired a residential reentry facility in Long Beach, California from a privately held owner for approximately \$7.7 million, excluding transaction related expenses. CCA did not assume any debt as part of the all-cash transaction. The 112-bed facility is leased to Community Education Centers, Inc. (CEC) under a triple net lease agreement that extends through June 2020 and includes one five-year lease extension option. CEC separately contracts with the CDCR to provide rehabilitative and reentry services to residents at the leased facility. CCA acquired the facility in the real estate only transaction as a strategic investment that expands the Company's investment in the residential reentry market.

Table of Contents**Idle Facilities**

CCA has six idled core facilities that are currently available and being actively marketed to other customers. CCA considers its core facilities to be those that were designed for adult secure correctional and detention purposes. The following table summarizes each of the idled facilities and their respective carrying values, excluding equipment and other assets that could generally be transferred and used at other facilities CCA owns without significant cost (dollars in thousands):

Facility	Design Capacity	Date Idled	Net Carrying Values	
			June 30, 2016	December 31, 2015
Prairie Correctional Facility	1,600	2010	\$ 17,661	\$ 17,961
Huerfano County Correctional Center	752	2010	17,903	18,276
Diamondback Correctional Facility	2,160	2010	42,288	43,030
Otter Creek Correctional Center	656	2012	23,002	23,270
Marion Adjustment Center	826	2013	12,345	12,536
Lee Adjustment Center	816	2015	10,591	10,840
	6,810		\$ 123,790	\$ 125,913

From the date each of the aforementioned six core facilities became idle, CCA incurred operating expenses of approximately \$1.8 million and \$1.6 million during the three months ended June 30, 2016 and 2015, respectively. From the date each of the aforementioned six core facilities became idle, CCA incurred operating expenses of approximately \$3.7 million and \$3.4 million during the six months ended June 30, 2016 and 2015, respectively.

CCA also has four idled non-core facilities with carrying values amounting to \$5.0 million and \$5.1 million as of June 30, 2016 and December 31, 2015, respectively. CCA considers the Shelby Training Center, Queensgate Correctional Facility, Mineral Wells Pre-Parole Transfer Facility, and Leo Chesney Correctional Center to be non-core facilities because they were designed for uses other than for adult secure correctional and detention purposes.

CCA considers the cancellation of a contract as an indicator of impairment and tested each of the aforementioned facilities for impairment when it was notified by the respective customers that they would no longer be utilizing such facility. CCA updates the impairment analyses on an annual basis for each of the idled facilities and evaluates on a quarterly basis market developments for the potential utilization of each of these facilities in order to identify events that may cause CCA to reconsider its most recent assumptions. As a result of CCA's analyses, CCA determined each of the idled facilities to have recoverable values in excess of the corresponding carrying values.

Based on a decline in offender populations within the state of Colorado and available capacity at other facilities CCA owns in Colorado, CCA idled its 1,488-bed Kit Carson Correctional Center during the third quarter of 2016. Inmate populations from the Kit Carson Correctional Center were transferred to the remaining two company-owned facilities that CCA continues to operate for the Colorado Department of Corrections, the Bent County Correctional Facility and the Crowley County Correctional Facility. CCA idled the Kit Carson Correctional Center following the transfer of the inmate population, and has begun to market the facility to other customers. CCA performed an

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impairment analysis of the Kit Carson Correctional Center, which had a net carrying value of \$59.3 million as of June 30, 2016, and concluded that this asset has a recoverable value in excess of the carrying value.

5. BUSINESS COMBINATIONS

During the fourth quarter of 2015, CCA closed on the acquisition of 100% of the stock of Avalon, along with two additional facilities operated by Avalon. The acquisition included 11 community corrections facilities with approximately 3,000 beds in Oklahoma, Texas, and Wyoming. CCA acquired Avalon, which specializes in community correctional services, drug and alcohol treatment services, and residential reentry services, as a strategic investment that continues to expand the reentry assets owned and services provided by the Company. The aggregate purchase price of \$157.5 million, excluding transaction related expenses, includes two earn-outs. One earn-out for \$5.5 million, which was based on the completion of and transition to a newly constructed facility that will deliver the contracted services provided at the Dallas Transitional Center, was paid in the second quarter of 2016. The second earn-out for up to \$2.0 million is based on the achievement of certain utilization milestones over 12 months following the acquisition. The acquisition was funded utilizing cash from CCA's \$900.0 Million Revolving Credit Facility, as defined hereafter.

In allocating the purchase price for the transaction, CCA recorded the following (in millions):

Property and equipment	\$ 119.2
Intangible assets	18.5
Total identifiable assets	137.7
Goodwill	19.8
Total consideration	\$ 157.5

The allocation of the purchase price is preliminary and may be subject to change within the measurement period of one year from the acquisition date. The primary areas of the preliminary purchase price allocation that are not finalized include determining the composition and valuation of intangible assets and goodwill. Several factors gave rise to the goodwill recorded in the acquisition, such as the expected benefit from synergies of the combination and the long-term contracts for community corrections services that continues to broaden the scope of solutions CCA provides, from incarceration through release. The results of operations for Avalon have been included in the Company's consolidated financial statements from the date of acquisition.

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On April 8, 2016, CCA closed on the acquisition of 100% of the stock of CMI, along with the real estate used in the operation of CMI's business from two entities affiliated with CMI. CMI, a privately held community corrections company that operates seven community corrections facilities, including six owned and one leased, with approximately 600 beds in Colorado, specializes in community correctional services, drug and alcohol treatment services, and residential reentry services. CMI provides these services through multiple contracts with three counties in Colorado, as well as the Colorado Department of Corrections, a current partner of CCA's. CCA acquired CMI as a strategic investment that continues to expand the reentry assets owned and services provided by the Company. The aggregate purchase price of the transaction was \$35.0 million, excluding transaction related expenses. The transaction was funded utilizing cash from CCA's \$900.0 Million Revolving Credit Facility, as defined hereafter.

In allocating the purchase price for the transaction, CCA recorded the following (in millions):

Tangible current assets and liabilities, net	\$ 1.0
Property and equipment	29.2
Intangible assets	1.5
 Total identifiable assets	 31.7
Goodwill	3.3
 Total consideration	 \$ 35.0

The allocation of the purchase price is preliminary and may be subject to change within the measurement period of one year from the acquisition date. The primary areas of the preliminary purchase price allocation that are not finalized include determining the composition and valuation of intangible assets and goodwill. Several factors gave rise to the goodwill recorded in the acquisition, such as the expected benefit from synergies of the combination and the long-term contracts for community corrections services that continues to broaden the scope of solutions CCA provides, from incarceration through release. The results of operations for CMI have been included in the Company's consolidated financial statements from the date of acquisition.

Table of Contents**6. DEBT**

Debt outstanding as of June 30, 2016 and December 31, 2015 consists of the following (in thousands):

	June 30, 2016	December 31, 2015
\$900.0 Million Revolving Credit Facility, principal due at maturity in July 2020; interest payable periodically at variable interest rates. The weighted average rate at June 30, 2016 and December 31, 2015 was 2.0% and 1.9%, respectively.	\$ 444,000	\$ 439,000
Term Loan, scheduled principal payments through maturity in July 2020; interest payable periodically at variable interest rates. The rate at both June 30, 2016 and December 31, 2015 was 2.0%. Unamortized debt issuance costs amounted to \$0.5 million and \$0.6 million at June 30, 2016 and December 31, 2015, respectively.	97,500	100,000
4.625% Senior Notes, principal due at maturity in May 2023; interest payable semi-annually in May and November at 4.625%. Unamortized debt issuance costs amounted to \$4.3 million and \$4.5 million at June 30, 2016 and December 31, 2015, respectively.	350,000	350,000
4.125% Senior Notes, principal due at maturity in April 2020; interest payable semi-annually in April and October at 4.125%. Unamortized debt issuance costs amounted to \$3.1 million and \$3.5 million at June 30, 2016 and December 31, 2015, respectively.	325,000	325,000
5.0% Senior Notes, principal due at maturity in October 2022; interest payable semi-annually in April and October at 5.0%. Unamortized debt issuance costs amounted to \$3.0 million and \$3.3 million at June 30, 2016 and December 31, 2015, respectively.	250,000	250,000
Total debt	1,466,500	1,464,000
Unamortized debt issuance costs	(10,858)	(11,923)
Current portion of long-term debt	(7,500)	(5,000)
Long-term debt, net	\$ 1,448,142	\$ 1,447,077

Revolving Credit Facility. During July 2015, CCA entered into an amended and restated \$900.0 million senior secured revolving credit facility (the "\$900.0 Million Revolving Credit Facility"). The \$900.0 Million Revolving Credit Facility has an aggregate principal capacity of \$900.0 million and a maturity of July 2020. The \$900.0 Million Revolving Credit Facility also has an accordion feature that provides for uncommitted incremental extensions of credit in the

form of increases in the revolving commitments or incremental term loans in an aggregate principal amount up to an additional \$350.0 million as requested by CCA, subject to bank approval. At CCA's option, interest on outstanding borrowings under the \$900.0 Million Revolving Credit Facility is based on either a base rate plus a margin ranging from 0.00% to 0.75% or at

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LIBOR plus a margin ranging from 1.00% to 1.75% based on CCA's leverage ratio. The \$900.0 Million Revolving Credit Facility includes a \$30.0 million sublimit for swing line loans that enables CCA to borrow at the base rate from the Administrative Agent without advance notice.

Based on CCA's current leverage ratio, loans under the \$900.0 Million Revolving Credit Facility bear interest at the base rate plus a margin of 0.50% or at LIBOR plus a margin of 1.50%, and a commitment fee equal to 0.35% of the unfunded balance. The \$900.0 Million Revolving Credit Facility also has a \$50.0 million sublimit for the issuance of standby letters of credit. As of June 30, 2016, CCA had \$444.0 million in borrowings under the \$900.0 Million Revolving Credit Facility as well as \$10.3 million in letters of credit outstanding resulting in \$445.7 million available under the \$900.0 Million Revolving Credit Facility.

The \$900.0 Million Revolving Credit Facility is secured by a pledge of all of the capital stock of CCA's domestic subsidiaries, 65% of the capital stock of CCA's foreign subsidiaries, all of CCA's accounts receivable, and all of CCA's deposit accounts. The \$900.0 Million Revolving Credit Facility requires CCA to meet certain financial covenants, including, without limitation, a maximum total leverage ratio, a maximum secured leverage ratio, and a minimum fixed charge coverage ratio. As of June 30, 2016, CCA was in compliance with all such covenants. In addition, the \$900.0 Million Revolving Credit Facility contains certain covenants that, among other things, limit the incurrence of additional indebtedness, payment of dividends and other customary restricted payments, transactions with affiliates, asset sales, mergers and consolidations, liquidations, prepayments and modifications of other indebtedness, liens and other encumbrances and other matters customarily restricted in such agreements. In addition, the \$900.0 Million Revolving Credit Facility is subject to certain cross-default provisions with terms of CCA's other indebtedness, and is subject to acceleration upon the occurrence of a change of control.

Incremental Term Loan. On October 6, 2015, CCA obtained \$100.0 million under an Incremental Term Loan (Term Loan) under the accordion feature of the \$900.0 Million Revolving Credit Facility. As of April 1, 2016, interest rates under the Term Loan are the same as the interest rates under the \$900.0 Million Revolving Credit Facility. The interest rate on the Term Loan was at a base rate plus a margin of 0.50% or at LIBOR plus a margin of 1.75% during the first two fiscal quarters following closing of the Term Loan. The Term Loan has the same collateral requirements, financial and certain other covenants, and cross-default provisions as the \$900.0 Million Revolving Credit Facility. The Term Loan, which is pre-payable, also has a maturity coterminous with the \$900.0 Million Revolving Credit Facility due July 2020, with scheduled quarterly principal payments in years 2016 through 2020. As of June 30, 2016, the outstanding balance of the Term Loan was \$97.5 million.

Senior Notes. Interest on the \$325.0 million aggregate principal amount of CCA's 4.125% senior notes issued in April 2013 (the 4.125% Senior Notes) accrues at the stated rate and is payable in April and October of each year. The 4.125% Senior Notes are scheduled to mature on April 1, 2020. Interest on the \$350.0 million aggregate principal amount of CCA's 4.625% senior notes issued in April 2013 (the 4.625% Senior Notes) accrues at the stated rate and is payable in May and November of each year. The 4.625% Senior Notes are scheduled to mature on May 1, 2023. Interest on

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the \$250.0 million aggregate principal amount of CCA's 5.0% senior notes issued in September 2015 (the 5.0% Senior Notes) accrues at the stated rate and is payable in April and October of each year. The 5.0% Senior Notes are scheduled to mature on October 15, 2022.

The 4.125% Senior Notes, the 4.625% Senior Notes, and the 5.0% Senior Notes, collectively referred to herein as the Senior Notes, are senior unsecured obligations of the Company and are guaranteed by all of the Company's subsidiaries that guarantee the \$900.0 Million Revolving Credit Facility. CCA may redeem all or part of the Senior Notes at any time prior to three months before their respective maturity date at a make-whole redemption price, plus accrued and unpaid interest thereon to, but not including, the redemption date. Thereafter, the Senior Notes are redeemable at CCA's option, in whole or in part, at a redemption price equal to 100% of the aggregate principal amount of the notes to be redeemed plus accrued and unpaid interest thereon to, but not including, the redemption date.

CCA also has the flexibility to issue additional debt or equity securities from time to time when the Company determines that market conditions and the opportunity to utilize the proceeds from the issuance of such securities are favorable.

Debt Maturities. Scheduled principal payments as of June 30, 2016 for the remainder of 2016, the next four years, and thereafter were as follows (in thousands):

2016 (remainder)	\$ 2,500
2017	10,000
2018	10,000
2019	15,000
2020	829,000
Thereafter	600,000
Total debt	\$ 1,466,500

7. STOCKHOLDERS EQUITY**Dividends on Common Stock**

During 2015 and the first six months of 2016, CCA's Board of Directors declared the following quarterly dividends on its common stock:

Declaration Date	Record Date	Payable Date	Per Share
February 20, 2015	April 2, 2015	April 15, 2015	\$ 0.54
May 14, 2015	July 2, 2015	July 15, 2015	\$ 0.54
August 13, 2015	October 2, 2015	October 15, 2015	\$ 0.54
December 10, 2015	January 4, 2016	January 15, 2016	\$ 0.54
February 19, 2016	April 1, 2016	April 15, 2016	\$ 0.54
May 12, 2016	July 1, 2016	July 15, 2016	\$ 0.54

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Future dividends will depend on CCA's distribution requirements as a REIT, future earnings, capital requirements, financial condition, opportunities for alternative uses of capital, and on such other factors as the Board of Directors of CCA may consider relevant.

Stock Options

In the first six months of 2016 and during 2015, CCA elected not to issue stock options to its non-employee directors, officers, and executive officers as it had in years prior to 2013 and instead elected to issue all of its equity compensation in the form of restricted common stock and restricted common stock units as described below. However, CCA continues to recognize stock option expense during the vesting period of stock options awarded in prior years. During the three months ended June 30, 2016 and 2015, CCA expensed \$8,000 and \$0.1 million, respectively, net of estimated forfeitures, relating to its outstanding stock options, all of which was charged to general and administrative expenses. During the six months ended June 30, 2016 and 2015, CCA expensed \$0.1 million and \$0.5 million, respectively, net of estimated forfeitures, relating to its outstanding stock options, all of which was charged to general and administrative expenses. As of June 30, 2016, options to purchase 1.4 million shares of common stock were outstanding with a weighted average exercise price of \$20.56 per common share.

Restricted Stock and Restricted Stock Units

During the first six months of 2016, CCA issued approximately 633,000 shares of restricted common stock units (RSUs) to certain of its employees and non-employee directors, with an aggregate value of \$18.4 million, including 560,000 RSUs to employees and non-employee directors whose compensation is charged to general and administrative expenses and 73,000 RSUs to employees whose compensation is charged to operating expense. During 2015, CCA issued approximately 438,000 shares of RSUs to certain of its employees and non-employee directors, with an aggregate value of \$17.5 million, including 385,000 RSUs to employees and non-employee directors whose compensation is charged to general and administrative expense and 53,000 RSUs to employees whose compensation is charged to operating expense.

CCA established performance-based vesting conditions on the RSUs awarded to its officers and executive officers in years 2014 through 2016. Unless earlier vested under the terms of the agreements, RSUs issued to officers and executive officers in 2015 and 2016 are subject to vesting over a three-year period based upon the satisfaction of certain annual performance criteria, and no more than one-third of the RSUs may vest in any one performance period. With respect to RSUs issued in 2014, no more than one-third of such shares or RSUs may vest in the first performance period; however, the performance criteria are cumulative for the three-year period. RSUs issued to other employees in 2016, unless earlier vested under the terms of the agreements, generally vest equally on the first, second, and third anniversary of the award. Shares of restricted stock and RSUs issued to other employees in years prior to 2016, unless earlier vested under the terms of the agreements, cliff vest on the third anniversary of the award. RSUs issued to non-employee directors vest one year from the date of award.

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During the three months ended June 30, 2016, CCA expensed \$4.1 million, net of forfeitures, relating to restricted common stock and RSUs (\$0.5 million of which was recorded in operating expenses and \$3.6 million of which was recorded in general and administrative expenses). During the three months ended June 30, 2015, CCA expensed \$3.8 million, net of forfeitures, relating to restricted common stock and RSUs (\$0.4 million of which was recorded in operating expenses and \$3.4 million of which was recorded in general and administrative expenses).

During the six months ended June 30, 2016, CCA expensed \$7.8 million, net of forfeitures, relating to restricted common stock and RSUs (\$1.0 million of which was recorded in operating expenses and \$6.8 million of which was recorded in general and administrative expenses). During the six months ended June 30, 2015, CCA expensed \$7.2 million, net of forfeitures, relating to restricted common stock and RSUs (\$0.8 million of which was recorded in operating expenses and \$6.4 million of which was recorded in general and administrative expenses). As of June 30, 2016, approximately 1.2 million RSUs remained outstanding and subject to vesting.

8. EARNINGS PER SHARE

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

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2016	2015	2016	2015
NUMERATOR				
Basic:				
Net income	\$ 57,583	\$ 65,303	\$ 103,890	\$ 122,580
Diluted:				
Net income	\$ 57,583	\$ 65,303	\$ 103,890	\$ 122,580
DENOMINATOR				
Basic:				
Weighted average common shares outstanding	117,401	116,962	117,318	116,799
Diluted:				
Weighted average common shares outstanding	117,401	116,962	117,318	116,799
Effect of dilutive securities:				
Stock options	514	720	473	794
Restricted stock-based compensation	94	130	98	197
Weighted average shares and assumed conversions	118,009	117,812	117,889	117,790
BASIC EARNINGS PER SHARE	\$ 0.49	\$ 0.56	\$ 0.89	\$ 1.05
DILUTED EARNINGS PER SHARE	\$ 0.49	\$ 0.55	\$ 0.88	\$ 1.04

Approximately 8,000 stock options were excluded from the computation of diluted earnings per share for the six months ended June 30, 2016 because they were anti-dilutive. There were no stock options excluded from the computation of diluted earnings per share for the three months ended June 30, 2016 and the three and six months ended June 30, 2015.

9. COMMITMENTS AND CONTINGENCIES**Legal Proceedings**

The nature of CCA's business results in claims and litigation alleging that it is liable for damages arising from the conduct of its employees, offenders or others. The nature of such claims includes, but is not limited to, claims arising from employee or offender misconduct, medical malpractice, employment matters, property loss, contractual claims, including claims regarding compliance with contract performance requirements, and personal injury or other damages resulting from contact with CCA's facilities, personnel or offenders, including damages arising from an offender's escape or from a disturbance at a facility. CCA maintains insurance to cover many of these claims, which may

mitigate the risk that any single claim would have a material effect on CCA's consolidated financial position, results of operations, or cash flows, provided the claim is one for which coverage is available. The combination of self-insured retentions and deductible amounts means that, in the aggregate, CCA is subject to substantial self-insurance risk.

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CCA records litigation reserves related to certain matters for which it is probable that a loss has been incurred and the range of such loss can be estimated. Based upon management's review of the potential claims and outstanding litigation and based upon management's experience and history of estimating losses, and taking into consideration CCA's self-insured retention amounts, management believes a loss in excess of amounts already recognized would not be material to CCA's financial statements. In the opinion of management, there are no pending legal proceedings that would have a material effect on CCA's consolidated financial position, results of operations, or cash flows. Any receivable for insurance recoveries is recorded separately from the corresponding litigation reserve, and only if recovery is determined to be probable. Adversarial proceedings and litigation are, however, subject to inherent uncertainties, and unfavorable decisions and rulings resulting from legal proceedings could occur which could have a material adverse impact on CCA's consolidated financial position, results of operations, or cash flows for the period in which such decisions or rulings occur, or future periods. Expenses associated with legal proceedings may also fluctuate from quarter to quarter based on changes in CCA's assumptions, new developments, or by the effectiveness of CCA's litigation and settlement strategies.

Guarantees

Hardeman County Correctional Facilities Corporation (HCCFC) is a nonprofit, mutual benefit corporation organized under the Tennessee Nonprofit Corporation Act to purchase, construct, improve, equip, finance, own and manage a detention facility located in Hardeman County, Tennessee. HCCFC was created as an instrumentality of Hardeman County to implement the County's incarceration agreement with the state of Tennessee to house certain inmates.

During 1997, HCCFC issued \$72.7 million of revenue bonds, which were primarily used for the construction of a 2,016-bed medium security correctional facility. In addition, HCCFC entered into a construction and management agreement with CCA in order to assure the timely and coordinated acquisition, construction, development, marketing and operation of the correctional facility.

HCCFC leases the correctional facility to Hardeman County in exchange for all revenue from the operation of the facility. HCCFC has, in turn, entered into a management agreement with CCA for the correctional facility.

In connection with the issuance of the revenue bonds, CCA is obligated, under a debt service deficit agreement, to pay the trustee of the bond's trust indenture (the Trustee) amounts necessary to pay any debt service deficits consisting of principal and interest requirements (outstanding principal balance of \$12.8 million at June 30, 2016 plus future interest payments). In the event the state of Tennessee, which is currently utilizing the facility to house certain inmates, exercises its option to purchase the correctional facility, CCA is also obligated to pay the difference between principal and interest owed on the bonds on the date set for the redemption of the bonds and amounts paid by the state of Tennessee for the facility plus all other funds on deposit

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with the Trustee and available for redemption of the bonds. Ownership of the facility reverts to the state of Tennessee in August 2017 at no cost. Therefore, CCA does not currently believe the state of Tennessee will exercise its option to purchase the facility. At June 30, 2016, the outstanding principal balance of the bonds exceeded the purchase price option by \$8.4 million.

10. INCOME TAXES

As discussed in Note 1, the Company began operating in compliance with REIT requirements for federal income tax purposes effective January 1, 2013. As a REIT, the Company must distribute at least 90 percent of its taxable income (including dividends paid to it by its TRSs) and will not pay federal income taxes on the amount distributed to its stockholders. In addition, the Company must meet a number of other organizational and operational requirements. It is management's intention to adhere to these requirements and maintain the Company's REIT status. Most states where CCA holds investments in real estate conform to the federal rules recognizing REITs. Certain subsidiaries have made an election with the Company to be treated as TRSs in conjunction with the Company's REIT election; the TRS elections permit CCA to engage in certain business activities in which the REIT may not engage directly. A TRS is subject to federal and state income taxes on the income from these activities and therefore, CCA includes a provision for taxes in its consolidated financial statements.

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

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

CCA recorded an income tax expense of \$2.7 million for both the three months ended June 30, 2016 and 2015. CCA recorded an income tax expense of \$3.8 million and \$4.0 million for the six months ended June 30, 2016 and 2015, respectively. As a REIT, CCA is entitled to a deduction for dividends paid, resulting in a substantial reduction in the amount of federal income tax expense it recognizes. Substantially all of CCA's income tax expense is incurred based on the earnings generated by its TRSs. CCA's overall effective tax rate is estimated based on its current projection of taxable income primarily generated in its TRSs. The Company's consolidated effective tax rate could fluctuate in the future based on changes in estimates of taxable income, the relative amounts of taxable income generated by the TRSs and the REIT, the implementation of additional tax planning strategies, changes in federal or state tax rates or laws affecting tax credits available to the Company, changes in other tax laws,

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changes in estimates related to uncertain tax positions, or changes in state apportionment factors, as well as changes in the valuation allowance applied to the Company's deferred tax assets that are based primarily on the amount of state net operating losses and tax credits that could expire unused.

Income Tax Contingencies

ASC 740 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The guidance prescribed in ASC 740 establishes a recognition threshold of more likely than not that a tax position will be sustained upon examination. The measurement attribute requires that a tax position be measured at the largest amount of benefit that is greater than 50% likely of being realized upon ultimate settlement.

CCA had no liabilities recorded for uncertain tax positions as of June 30, 2016. CCA recognizes interest and penalties related to unrecognized tax positions in income tax expense. CCA does not currently anticipate that the total amount of unrecognized tax positions will significantly change in the next twelve months.

11. SEGMENT REPORTING

As of June 30, 2016, CCA owned and managed 66 facilities, and managed 11 facilities it did not own. In addition, CCA owned eight facilities that it leased to third-party operators. Management views CCA's operating results in one operating segment. However, the Company has chosen to report financial performance segregated for (1) owned and managed facilities and (2) managed-only facilities as the Company believes this information is useful to users of the financial statements. Owned and managed facilities include the operating results of those facilities placed into service that were owned or controlled via a long-term lease and managed by CCA. Managed-only facilities include the operating results of those facilities owned by a third party and managed by CCA. The operating performance of the owned and managed and the managed-only facilities can be measured based on their net operating income. CCA defines facility net operating income as a facility's operating income or loss from operations before interest, taxes, asset impairments, depreciation, and amortization.

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The revenue and net operating income for the owned and managed and the managed-only facilities and a reconciliation to CCA's operating income is as follows for the three and six months ended June 30, 2016 and 2015 (in thousands):

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2016	2015	2016	2015
Revenue:				
Owned and managed	\$ 401,931	\$ 396,053	\$ 790,552	\$ 760,017
Managed-only	51,346	53,714	101,176	106,658
Total management revenue	453,277	449,767	891,728	866,675
Operating expenses:				
Owned and managed	266,249	263,419	529,672	507,719
Managed-only	44,218	48,700	89,309	96,709
Total operating expenses	310,467	312,119	618,981	604,428
Facility net operating income:				
Owned and managed	135,682	132,634	260,880	252,298
Managed-only	7,128	5,014	11,867	9,949
Total facility net operating income	142,810	137,648	272,747	262,247
Other revenue (expense):				
Rental and other revenue	10,054	9,528	18,988	18,620
Other operating expense	(5,979)	(5,916)	(11,383)	(14,269)
General and administrative	(27,364)	(23,107)	(53,844)	(49,979)
Depreciation and amortization	(42,345)	(38,400)	(84,404)	(67,085)
Asset impairments				(955)
Operating income	\$ 77,176	\$ 79,753	\$ 142,104	\$ 148,579

The following table summarizes capital expenditures including accrued amounts for the three and six months ended June 30, 2016 and 2015 (amounts in thousands):

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2016	2015	2016	2015
Capital expenditures:				
Owned and managed	\$ 59,453	\$ 70,527	\$ 70,731	\$ 153,361
Managed-only	686	1,168	1,341	1,899
Corporate and other	11,215	1,986	12,209	9,600

Total capital expenditures	\$ 71,354	\$ 73,681	\$ 84,281	\$ 164,860
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The total assets are as follows (in thousands):

	June 30, 2016	December 31, 2015
Assets:		
Owned and managed	\$ 2,867,330	\$ 2,966,762
Managed-only	64,176	54,491
Corporate and other	396,244	334,765
Total assets	\$ 3,327,750	\$ 3,356,018

Table of Contents**12. CONDENSED CONSOLIDATING FINANCIAL STATEMENTS OF THE COMPANY AND SUBSIDIARIES**

The following condensed consolidating financial statements of CCA and subsidiaries have been prepared pursuant to Rule 3-10 of Regulation S-X. These condensed consolidating financial statements have been prepared from the Company's financial information on the same basis of accounting as the consolidated financial statements.

CONDENSED CONSOLIDATING BALANCE SHEET

As of June 30, 2016

(in thousands)

	Parent	Combined Subsidiary Guarantors	Consolidating Adjustments and Other	Total Consolidated Amounts
<u>ASSETS</u>				
Cash and cash equivalents	\$ 20,641	\$ 50,202	\$	\$ 70,843
Accounts receivable, net of allowance	262,953	234,914	(276,440)	221,427
Prepaid expenses and other current assets	3,836	35,345	(6,186)	32,995
Total current assets	287,430	320,461	(282,626)	325,265
Property and equipment, net	2,506,346	363,804		2,870,150
Restricted cash	218			218
Goodwill	23,260	15,155		38,415
Non-current deferred tax assets		8,085	(311)	7,774
Other assets	305,404	59,140	(278,616)	85,928
Total assets	\$ 3,122,658	\$ 766,645	\$ (561,553)	\$ 3,327,750
<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>				
Accounts payable and accrued expenses	\$ 218,944	\$ 396,542	\$ (282,627)	\$ 332,859
Income taxes payable	908	231		1,139
Current portion of long-term debt	7,500			7,500
Total current liabilities	227,352	396,773	(282,627)	341,498
Long-term debt, net	1,449,270	113,872	(115,000)	1,448,142
Non-current deferred tax liabilities	311		(311)	
Deferred revenue		45,608		45,608
Other liabilities	1,098	46,777		47,875
Total liabilities	1,678,031	603,030	(397,938)	1,883,123
Total stockholders' equity	1,444,627	163,615	(163,615)	1,444,627

Total liabilities and stockholders equity	\$ 3,122,658	\$ 766,645	\$ (561,553)	\$ 3,327,750
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Table of Contents**CONDENSED CONSOLIDATING BALANCE SHEET**

As of December 31, 2015

(in thousands)

	Parent	Combined Subsidiary Guarantors	Consolidating Adjustments and Other	Total Consolidated Amounts
<u>ASSETS</u>				
Cash and cash equivalents	\$ 15,666	\$ 49,625	\$	\$ 65,291
Restricted cash	637	240		877
Accounts receivable, net of allowance	300,632	159,286	(225,462)	234,456
Prepaid expenses and other current assets	3,760	43,706	(6,032)	41,434
Total current assets	320,695	252,857	(231,494)	342,058
Property and equipment, net	2,526,278	356,782		2,883,060
Restricted cash	131			131
Investment in direct financing lease	684			684
Goodwill	20,402	15,155		35,557
Non-current deferred tax assets		10,217	(393)	9,824
Other assets	241,510	57,120	(213,926)	84,704
Total assets	\$ 3,109,700	\$ 692,131	\$ (445,813)	\$ 3,356,018
<u>LIABILITIES AND STOCKHOLDERS EQUITY</u>				
Accounts payable and accrued expenses	\$ 191,600	\$ 357,569	\$ (231,494)	\$ 317,675
Income taxes payable		1,920		1,920
Current portion of long-term debt	5,000			5,000
Total current liabilities	196,600	359,489	(231,494)	324,595
Long-term debt, net	1,448,316	113,761	(115,000)	1,447,077
Non-current deferred tax liabilities	393		(393)	
Deferred revenue		63,289		63,289
Other liabilities	1,643	56,666		58,309
Total liabilities	1,646,952	593,205	(346,887)	1,893,270
Total stockholders equity	1,462,748	98,926	(98,926)	1,462,748
Total liabilities and stockholders equity	\$ 3,109,700	\$ 692,131	\$ (445,813)	\$ 3,356,018

Table of Contents**CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS****For the three months ended June 30, 2016**

(in thousands)

	Parent	Combined Subsidiary Guarantors	Consolidating Adjustments and Other	Total Consolidated Amounts
REVENUES	\$ 293,314	\$ 386,740	\$ (216,723)	\$ 463,331
EXPENSES:				
Operating	224,689	308,480	(216,723)	316,446
General and administrative	8,832	18,532		27,364
Depreciation and amortization	21,055	21,290		42,345
	254,576	348,302	(216,723)	386,155
OPERATING INCOME	38,738	38,438		77,176
OTHER (INCOME) EXPENSE:				
Interest expense, net	12,868	3,928		16,796
Other (income) expense	289	(153)	(4)	132
	13,157	3,775	(4)	16,928
INCOME BEFORE INCOME TAXES	25,581	34,663	4	60,248
Income tax expense	(515)	(2,150)		(2,665)
INCOME BEFORE EQUITY IN SUBSIDIARIES	25,066	32,513	4	57,583
Income from equity in subsidiaries	32,517		(32,517)	
NET INCOME	\$ 57,583	\$ 32,513	\$ (32,513)	\$ 57,583

Table of Contents**CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS****For the three months ended June 30, 2015**

(in thousands)

	Parent	Combined Subsidiary Guarantors	Consolidating Adjustments and Other	Total Consolidated Amounts
REVENUES	\$ 302,374	\$ 372,948	\$ (216,027)	\$ 459,295
EXPENSES:				
Operating	221,956	312,106	(216,027)	318,035
General and administrative	6,699	16,408		23,107
Depreciation and amortization	20,275	18,125		38,400
Asset impairments				
	248,930	346,639	(216,027)	379,542
OPERATING INCOME	53,444	26,309		79,753
OTHER (INCOME) EXPENSE:				
Interest expense, net	8,254	3,507		11,761
Other (income) expense	(211)	111	136	36
	8,043	3,618	136	11,797
INCOME BEFORE INCOME TAXES	45,401	22,691	(136)	67,956
Income tax expense	(345)	(2,308)		(2,653)
INCOME BEFORE EQUITY IN SUBSIDIARIES	45,056	20,383	(136)	65,303
Income from equity in subsidiaries	20,247		(20,247)	
NET INCOME	\$ 65,303	\$ 20,383	\$ (20,383)	\$ 65,303

Table of Contents**CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS**

For the six months ended June 30, 2016

(in thousands)

	Parent	Combined Subsidiary Guarantors	Consolidating Adjustments and Other	Total Consolidated Amounts
REVENUES	\$ 578,038	\$ 764,217	\$ (431,539)	\$ 910,716
EXPENSES:				
Operating	446,753	615,150	(431,539)	630,364
General and administrative	18,026	35,818		53,844
Depreciation and amortization	41,946	42,458		84,404
	506,725	693,426	(431,539)	768,612
OPERATING INCOME	71,313	70,791		142,104
OTHER (INCOME) EXPENSE:				
Interest expense, net	25,870	8,470		34,340
Other (income) expense	401	(344)	(8)	49
	26,271	8,126	(8)	34,389
INCOME BEFORE INCOME TAXES	45,042	62,665	8	107,715
Income tax expense	(881)	(2,944)		(3,825)
INCOME BEFORE EQUITY IN SUBSIDIARIES	44,161	59,721	8	103,890
Income from equity in subsidiaries	59,729		(59,729)	
NET INCOME	\$ 103,890	\$ 59,721	\$ (59,721)	\$ 103,890

Table of Contents**CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS****For the six months ended June 30, 2015**

(in thousands)

	Parent	Combined Subsidiary Guarantors	Consolidating Adjustments and Other	Total Consolidated Amounts
REVENUES	\$ 605,414	\$ 708,171	\$ (428,290)	\$ 885,295
EXPENSES:				
Operating	443,633	603,354	(428,290)	618,697
General and administrative	15,499	34,480		49,979
Depreciation and amortization	40,344	26,741		67,085
Asset impairments		955		955
	499,476	665,530	(428,290)	736,716
OPERATING INCOME	105,938	42,641		148,579
OTHER (INCOME) EXPENSE:				
Interest expense, net	16,681	5,270		21,951
Other (income) expense	(40)	(10)	60	10
	16,641	5,260	60	21,961
INCOME BEFORE INCOME TAXES	89,297	37,381	(60)	126,618
Income tax expense	(521)	(3,517)		(4,038)
INCOME BEFORE EQUITY IN SUBSIDIARIES	88,776	33,864	(60)	122,580
Income from equity in subsidiaries	33,804		(33,804)	
NET INCOME	\$ 122,580	\$ 33,864	\$ (33,864)	\$ 122,580

Table of Contents**CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS****For the six months ended June 30, 2016**

(in thousands)

	Parent	Combined Subsidiary Guarantors	Consolidating Adjustments And Other	Total Consolidated Amounts
Net cash provided by operating activities	\$ 158,035	\$ 55,291	\$	\$ 213,326
Net cash used in investing activities	(20,643)	(51,899)		(72,542)
Net cash used in financing activities	(132,417)	(2,815)		(135,232)
Net increase in cash and cash equivalents	4,975	577		5,552
CASH AND CASH EQUIVALENTS, beginning of period	15,666	49,625		65,291
CASH AND CASH EQUIVALENTS, end of period	\$ 20,641	\$ 50,202	\$	70,843

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS**For the six months ended June 30, 2015**

(in thousands)

	Parent	Combined Subsidiary Guarantors	Consolidating Adjustments And Other	Total Consolidated Amounts
Net cash provided by operating activities	\$ 100,465	\$ 114,782	\$	\$ 215,247
Net cash used in investing activities	(19,214)	(55,143)	(84,999)	(159,356)
Net cash provided by (used in) financing activities	(92,032)	(82,182)	84,999	(89,215)
Net decrease in cash and cash equivalents	(10,781)	(22,543)		(33,324)
CASH AND CASH EQUIVALENTS, beginning of period	12,337	62,056		74,393
CASH AND CASH EQUIVALENTS, end of period	\$ 1,556	\$ 39,513	\$	\$ 41,069

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

The following discussion should be read in conjunction with the financial statements and notes thereto appearing elsewhere in this report.

This quarterly report on Form 10-Q contains statements as to our beliefs and expectations of the outcome of future events that are forward-looking statements as defined within the meaning of the Private Securities Litigation Reform Act of 1995. All statements other than statements of current or historical fact contained herein, including statements regarding our future financial position, business strategy, budgets, projected costs and plans, and objectives of management for future operations, are forward-looking statements. The words anticipate, believe, continue, estimate, expect, intend, could, may, plan, projects, will, and similar expressions, as they relate to us, are intended to forward-looking statements. These forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from the statements made. These include, but are not limited to, the risks and uncertainties associated with:

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

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

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

our ability to obtain and maintain correctional, detention, and reentry facility management contracts, including, but not limited to, sufficient governmental appropriations, contract compliance, effects of inmate disturbances, and the timing of the opening of new facilities and the commencement of new management contracts as well as our ability to utilize current available beds and new capacity as development and expansion projects are completed;

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

changes in government policy and in legislation and regulation of the corrections and detention industry that affect our business, including, but not limited to, California's utilization of out-of-state private correctional capacity and the continued utilization of the South Texas Family Residential Center by U.S. Immigration and Customs Enforcement, or ICE, under terms of the current contract, and the impact of any changes to immigration reform and sentencing laws (Our company does not, under longstanding policy, lobby for or against policies or legislation that would determine the basis for, or duration of, an individual's incarceration

or detention.);

our ability to successfully integrate operations of our acquisitions and realize projected returns resulting therefrom;

our ability to meet and maintain qualification for taxation as a real estate investment trust, or REIT; and

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

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Any or all of our forward-looking statements in this quarterly report may turn out to be inaccurate. We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends that we believe may affect our financial condition, results of operations, business strategy, and financial needs. Our statements can be affected by inaccurate assumptions we might make or by known or unknown risks, uncertainties and assumptions, including the risks, uncertainties, and assumptions described in Risk Factors disclosed in Part II hereafter, as well as in the 2015 Form 10-K and in other reports we file with the Securities and Exchange Commission, or the SEC, from time to time. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. We undertake no obligation to publicly revise these forward-looking statements to reflect events or circumstances occurring after the date hereof or to reflect the occurrence of unanticipated events. All subsequent written and oral forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by the cautionary statements contained in this report and in the 2015 Form 10-K.

OVERVIEW

The Company

As of June 30, 2016, we owned or controlled 49 correctional and detention facilities, owned or controlled 25 residential reentry facilities, and managed an additional 11 correctional and detention facilities owned by our government partners, with a total design capacity of approximately 89,300 beds in 20 states and the District of Columbia. We are a REIT specializing in owning, operating, and managing prisons and other correctional facilities and providing residential, community reentry, and prisoner transportation services for governmental agencies. In addition to providing fundamental residential services, our facilities offer a variety of rehabilitation and educational programs, including basic education, faith-based services, life skills and employment training, and substance abuse treatment. These services are intended to help reduce recidivism and to prepare offenders for their successful reentry into society upon their release. We also provide or make available to offenders certain health care (including medical, dental, and mental health services), food services, and work and recreational programs.

We are a Maryland corporation formed in 1983. Our principal executive offices are located at 10 Burton Hills Boulevard, Nashville, Tennessee, 37215, and our telephone number at that location is (615) 263-3000. Our website address is www.cca.com. We make our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to those reports under the Securities Exchange Act of 1934, as amended (the Exchange Act), available on our website, free of charge, as soon as reasonably practicable after these reports are filed with or furnished to the SEC. Information contained on our website is not part of this report.

We began operating as a REIT for federal income tax purposes effective January 1, 2013. Since that date, we have provided correctional services and conducted other operations through taxable REIT subsidiaries, or TRSs. A TRS is a subsidiary of a REIT that is subject to applicable corporate income tax and certain qualification requirements. Our use of TRSs enables us to comply with REIT qualification requirements while providing correctional services at facilities we own and at facilities owned by our government partners and to engage in certain other operations. A TRS is not subject to the distribution requirements applicable to REITs so it may retain income generated by its operations for reinvestment.

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As a REIT, we generally are not subject to federal income taxes on our REIT taxable income and gains that we distribute to our stockholders, including the income derived from providing prison bed capacity and dividends we earn from our TRSs. However, our TRSs will be required to pay income taxes on their earnings at regular corporate income tax rates.

As a REIT, we generally are required to distribute annually to our stockholders at least 90% of our REIT taxable income (determined without regard to the dividends paid deduction and excluding net capital gains). Our REIT taxable income will not typically include income earned by our TRSs except to the extent our TRSs pay dividends to the REIT.

CRITICAL ACCOUNTING POLICIES

The consolidated financial statements in this report are prepared in conformity with U.S. generally accepted accounting principles. As such, we are required to make certain estimates, judgments, and assumptions that we believe are reasonable based upon the information available. These estimates and assumptions affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. A summary of our significant accounting policies is described in our 2015 Form 10-K. The significant accounting policies and estimates which we believe are the most critical to aid in fully understanding and evaluating our reported financial results include the following:

Asset impairments. The primary risk we face for asset impairment charges, excluding goodwill, is associated with correctional facilities we own. As of June 30, 2016, we had \$2.9 billion in property and equipment, including \$123.8 million in long-lived assets, excluding equipment, at six idled core correctional facilities. The impairment analyses we performed for each of these facilities excluded the net book value of equipment, as a substantial portion of the equipment is easily transferrable to other company-owned facilities without significant cost. The carrying values of the six idled core facilities as of June 30, 2016 were as follows (in thousands):

Prairie Correctional Facility	\$ 17,661
Huerfano County Correctional Center	17,903
Diamondback Correctional Facility	42,288
Otter Creek Correctional Center	23,002
Marion Adjustment Center	12,345
Lee Adjustment Center	10,591
	\$ 123,790

From the date each facility became idle, the idled facilities incurred combined operating expenses of approximately \$1.8 million and \$1.6 million for the three months ended June 30, 2016 and 2015, respectively. From the date each facility became idle, the idled facilities incurred combined operating expenses of approximately \$3.7 million and \$3.4 million for the six months ended June 30, 2016 and 2015, respectively.

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We also have four idled non-core facilities with carrying values amounting to \$5.0 million as of June 30, 2016. We consider the Shelby Training Center, Queensgate Correctional Facility, Mineral Wells Pre-Parole Transfer Facility, and Leo Chesney Correctional Center to be non-core facilities because they were designed for uses other than for adult secure correctional purposes.

We evaluate the recoverability of the carrying values of our long-lived assets, other than goodwill, when events suggest that an impairment may have occurred. Such events primarily include, but are not limited to, the termination of a management contract or a significant decrease in inmate populations within a correctional facility we own or manage. Accordingly, we tested each of the aforementioned idled facilities for impairment when we were notified by the respective customers that they would no longer be utilizing such facility.

We re-perform the impairment analyses on an annual basis for each of the idle facilities and evaluate on a quarterly basis market developments for the potential utilization of each of these facilities in order to identify events that may cause us to reconsider our most recent assumptions. Such events could include negotiations with a prospective customer for the utilization of an idle facility at terms significantly less favorable than used in our most recent impairment analysis, or changes in legislation surrounding a particular facility that could impact our ability to house certain types of inmates at such facility, or a demolition or substantial renovation of a facility. Further, a substantial increase in the number of available beds at other facilities we own could lead to a deterioration in market conditions and cash flows that we might be able to obtain under a new management contract at our idle facilities. We have historically secured contracts with customers at existing facilities that were already operational, allowing us to move the existing population to other idle facilities. Although they are not frequently received, an unsolicited offer to purchase any of our idle facilities at amounts that are less than the carrying value could also cause us to reconsider the assumptions used in our most recent impairment analysis.

Our impairment evaluations also take into consideration our historical experience in securing new management contracts to utilize facilities that had been previously idled for periods comparable to the periods that our currently idle facilities have been idle. Such previously idled facilities are currently being operated under contracts that generate cash flows resulting in the recoverability of the net book value of the previously idled facilities by substantial amounts. Due to a variety of factors, the lead time to negotiate contracts with our federal and state partners to utilize idle bed capacity is generally lengthy and has historically resulted in periods of idleness similar to the ones we are currently experiencing at our idle facilities. As a result of our analyses, we determined each of the idled facilities to have recoverable values in excess of the corresponding carrying values. However, we can provide no assurance that we will be able to secure agreements to utilize our idle facilities, or that we will not incur impairment charges in the future.

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By their nature, these estimates contain uncertainties with respect to the extent and timing of the respective cash flows due to potential delays or material changes to historical terms and conditions in contracts with prospective customers that could impact the estimate of cash flows. Notwithstanding the effects the recent economic downturn has had on our customers' demand for prison beds in the short-term which led to our decision to idle certain facilities, we believe the long-term trends favor an increase in the utilization of our correctional facilities and management services. This belief is based on our experience in operating in difficult economic environments and in working with governmental agencies faced with significant budgetary challenges, which is a primary contributing factor to the lack of appropriated funding since 2009 to build new bed capacity by the federal and state governments with which we partner.

Based on a decline in offender populations within the state of Colorado and available capacity at other facilities we own in Colorado, we idled our 1,488-bed Kit Carson Correctional Center during the third quarter of 2016. Inmate populations from the Kit Carson Correctional Center were transferred to the remaining two company-owned facilities that we continue to operate for the Colorado Department of Corrections, the Bent County Correctional Facility and the Crowley County Correctional Facility. We idled the Kit Carson Correctional Center following the transfer of the inmate population, and we have begun to market the facility to other customers. We incurred a facility net operating loss at the Kit Carson Correctional Center of \$0.8 million and \$1.0 million for the three and six months ended June 30, 2016, respectively. We performed an impairment analysis of the Kit Carson Correctional Center, which had a net carrying value of \$59.3 million as of June 30, 2016, and concluded that this asset has a recoverable value in excess of the carrying value.

Revenue Recognition - Multiple-Element Arrangement. In September 2014, we agreed under an expansion of an existing inter-governmental service agreement, or IGSA, between the city of Eloy, Arizona and ICE to provide residential space and services at our South Texas Family Residential Center. The amended IGSA qualifies as a multiple-element arrangement under the guidance in Accounting Standards Codification, or ASC, 605, Revenue Recognition. We evaluate each deliverable in an arrangement to determine whether it represents a separate unit of accounting. A deliverable constitutes a separate unit of accounting when it has standalone value to the customer. ASC 605 requires revenue to be allocated to each unit of accounting based on a selling price hierarchy. The selling price for a deliverable is based on its vendor specific objective evidence, or VSOE, of selling price, if available, third party evidence, or TPE, if VSOE of selling price is not available, or estimated selling price, or ESP, if neither VSOE of selling price nor TPE is available. We establish VSOE of selling price using the price charged for a deliverable when sold separately. We establish TPE of selling price by evaluating similar products or services in standalone sales to similarly situated customers. We establish ESP based on management judgment considering internal factors such as margin objectives, pricing practices and controls, and market conditions. In arrangements with multiple elements, we allocate the transaction price to the individual units of accounting at inception of the arrangement based on their relative selling price. The allocation of revenue to each element requires considerable judgment and estimations which could change in the future. However, during the originally expected four-year life, a change in revenue allocation could lead to timing differences in the period in which revenue is recognized, while total revenue recognized over the four-year contract life of the IGSA will not change. If the IGSA were to be amended or terminated before the expiration of the four-year term, we would determine the allocation of any deferred revenues to separate units of accounting to be recognized immediately for services previously provided and, if amended, over future periods based on the delivery of future services.

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Self-funded insurance reserves. As of June 30, 2016, we had \$29.1 million in accrued liabilities for employee health, workers' compensation, and automobile insurance claims. We are significantly self-insured for employee health, workers' compensation, and automobile liability insurance claims. As such, our insurance expense is largely dependent on claims experience and our ability to control our claims. We have consistently accrued the estimated liability for employee health insurance claims based on our history of claims experience and the estimated time lag between the incident date and the date we pay the claims. We have accrued the estimated liability for workers' compensation claims based on an actuarial valuation of the outstanding liabilities, discounted to the net present value of the outstanding liabilities, using a combination of actuarial methods used to project ultimate losses, and our automobile insurance claims based on estimated development factors on claims incurred. The liability for employee health, workers' compensation, and automobile insurance includes estimates for both claims incurred and for claims incurred but not reported. These estimates could change in the future. It is possible that future cash flows and results of operations could be materially affected by changes in our assumptions, new developments, or by the effectiveness of our strategies.

Legal reserves. As of June 30, 2016, we had \$7.5 million in accrued liabilities related to certain legal proceedings in which we are involved. We have accrued our best estimate of the probable costs for the resolution of these claims based on a range of potential outcomes. In addition, we are subject to current and potential future legal proceedings for which little or no accrual has been reflected because our current assessment of the potential exposure is nominal. These estimates have been developed in consultation with our General Counsel's office and, as appropriate, outside counsel handling these matters, and are based upon an analysis of potential results, assuming a combination of litigation and settlement strategies. It is possible that future cash flows and results of operations could be materially affected by changes in our assumptions, new developments, or by the effectiveness of our strategies.

Table of Contents**RESULTS OF OPERATIONS**

Our results of operations are impacted by the number of facilities we owned and managed, the number of facilities we managed but did not own, the number of facilities we leased to other operators, and the facilities we owned that were not in operation. The following table sets forth the changes in the number of facilities operated for the periods presented:

	Effective Date	Owned and Managed	Managed Only	Leased	Total
Facilities as of December 31, 2014		49	12	3	64
Impairment of non-core assets	January 2015	(2)			(2)
Acquisition of four community corrections facilities in Pennsylvania	August 2015			4	4
Termination of the management contract for the Winn Correctional Center	September 2015		(1)		(1)
Termination of the lease contract at the Leo Chesney Correctional Center	October 2015	1		(1)	
Acquisition of eleven community corrections facilities in Oklahoma (3), Texas (7), and Wyoming (1)	October 2015	11			11
Activation of the Trousdale Turner Correctional Center	December 2015	1			1
Facilities as of December 31, 2015		60	11	6	77
Acquisition of seven community corrections facilities in Colorado	April 2016	7			7
Lease of the North Fork Correctional Facility	May 2016	(1)		1	
Acquisition of the Long Beach Community Corrections Center in California	June 2016			1	1
Facilities as of June 30, 2016		66	11	8	85

Three and Six Months Ended June 30, 2016 Compared to the Three and Six Months Ended June 30, 2015

Net income was \$57.6 million, or \$0.49 per diluted share, for the three months ended June 30, 2016, compared with net income of \$65.3 million, or \$0.55 per diluted share, for the three months ended June 30, 2015. During the six months ended June 30, 2016, we generated net income of \$103.9 million, or \$0.88 per diluted share, compared with net income of \$122.6 million, or \$1.04 per diluted share, for the six months ended June 30, 2015.

Table of Contents**Facility Operations**

A key performance indicator we use to measure the revenue and expenses associated with the operation of the facilities we own or manage is expressed in terms of a compensated man-day, which represents the revenue we generate and expenses we incur for one offender for one calendar day. Revenue and expenses per compensated man-day are computed by dividing facility revenue and expenses by the total number of compensated man-days during the period. A compensated man-day represents a calendar day for which we are paid for the occupancy of an offender. We believe the measurement is useful because we are compensated for operating and managing facilities at an offender per-diem rate based upon actual or minimum guaranteed occupancy levels. We also measure our ability to contain costs on a per-compensated man-day basis, which is largely dependent upon the number of offenders we accommodate. Further, per compensated man-day measurements are also used to estimate our potential profitability based on certain occupancy levels relative to design capacity. Revenue and expenses per compensated man-day for all of the facilities placed into service that we owned or managed, exclusive of those held for lease, were as follows for the three and six months ended June 30, 2016 and 2015:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2016	2015	2016	2015
Revenue per compensated man-day	\$ 75.28	\$ 72.79	\$ 75.29	\$ 71.50
Operating expenses per compensated man-day:				
Fixed expense	38.37	36.98	39.11	36.34
Variable expense	15.40	15.26	15.41	14.41
Total	53.77	52.24	54.52	50.75
Operating income per compensated man-day	\$ 21.51	\$ 20.55	\$ 20.77	\$ 20.75
Operating margin	28.6%	28.2%	27.6%	29.0%
Average compensated occupancy	79.3%	84.9%	77.2%	84.5%
Average available beds	83,399	79,980	84,297	79,262
Average compensated population	66,169	67,902	65,077	66,971

Fixed expenses per compensated man-day for the three and six months ended June 30, 2016 include depreciation expense of \$10.6 million and \$21.2 million, respectively, and interest expense of \$2.7 million and \$5.6 million, respectively, in order to more properly reflect the cash flows associated with the lease at the South Texas Family Residential Center. Fixed expenses per compensated man-day for both the three and six months ended June 30, 2015 include depreciation expense of \$8.5 million and interest expense of \$2.2 million associated with the lease at the South Texas Family Residential Center.

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Total revenue consists of revenue we generate in the operation and management of correctional, detention, and residential reentry facilities, as well as rental revenue generated from facilities we lease to third-party operators, and from our inmate transportation subsidiary. The following table reflects the components of revenue for the three and six months ended June 30, 2016 and 2015 (in millions):

	For the Three Months Ended			
	June 30,			
	2016	2015	\$ Change	% Change
Management revenue:				
Federal	\$ 242.6	\$ 236.3	\$ 6.3	2.7%
State	174.6	183.8	(9.2)	(5.0%)
Local	20.4	16.3	4.1	25.2%
Other	15.6	13.4	2.2	16.4%
Total management revenue	453.2	449.8	3.4	0.8%
Rental and other revenue	10.1	9.5	0.6	6.3%
Total revenue	\$ 463.3	\$ 459.3	\$ 4.0	0.9%

	For the Six Months Ended			
	June 30,			
	2016	2015	\$ Change	% Change
Management revenue:				
Federal	\$ 478.3	\$ 439.5	\$ 38.8	8.8%
State	345.8	368.4	(22.6)	(6.1%)
Local	36.7	32.5	4.2	12.9%
Other	30.9	26.3	4.6	17.5%
Total management revenue	891.7	866.7	25.0	2.9%
Rental and other revenue	19.0	18.6	0.4	2.2%
Total revenue	\$ 910.7	\$ 885.3	\$ 25.4	2.9%

The \$3.4 million, or 0.8%, increase in revenue associated with the operation and management of correctional, detention, and residential reentry facilities during the second quarter of 2016 compared with the second quarter of 2015 consisted of an increase in revenue of approximately \$14.9 million resulting from an increase of 3.4% in average revenue per compensated man-day, partially offset by a decrease in revenue of approximately \$11.5 million caused by a decrease in the average daily compensated population from 2015 to 2016. The \$25.0 million, or 2.9%, increase in revenue associated with the operation and management of correctional, detention, and residential reentry facilities during the six months ended June 30, 2016 compared with the same period in the prior year consisted of an increase in revenue of approximately \$44.9 million resulting from an increase of 5.3% in average revenue per compensated man-day, partially offset by a decrease in revenue of approximately \$19.9 million caused by a decrease in the average

daily compensated population from 2015 to 2016, net of the revenue generated by one additional day of operations due to leap year in 2016. Most notably, the increase in average revenue per compensated man-day in both periods was a result of the full activation of the South Texas Family Residential Center in the second quarter of 2015, as further described hereafter. Per diem increases at several of our other facilities also contributed to the increase in average revenue per compensated man-day from 2015 to 2016.

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Average daily compensated population decreased 1,733, or 2.6%, from 67,902 during the three months ended June 30, 2015 to 66,169 during the three months ended June 30, 2016, while average daily compensated population for the six months ended June 30, 2016 decreased 1,894 from the comparable period in 2015. The decline in average compensated population in both periods primarily resulted from the expiration of our contract with the Federal Bureau of Prisons, or BOP, at our Northeast Ohio Correctional Center effective May 31, 2015, and due to a decline in California inmates held in our out-of-state facilities, both as further described hereafter. The decline in average compensated population was also a result of the expiration of our contract with the state of Vermont at our Lee Adjustment Center effective June 30, 2015, and the expiration of our managed-only contract with the state of Louisiana at the state-owned Winn Correctional Facility effective September 30, 2015, both as further described hereafter. The decline in average compensated population was partially offset by the effect of the full activation of the South Texas Family Residential Center in the second quarter of 2015, the acquisition of Avalon Correctional Services, Inc., or Avalon, in the fourth quarter of 2015, and the activation of the newly constructed Trousdale Turner Correctional Center in the fourth quarter of 2015. We began housing state of Tennessee inmates at the facility in January 2016.

Business from our federal customers, including primarily the BOP, the United States Marshals Service, or USMS, and ICE, continues to be a significant component of our business. Our federal customers generated approximately 52% and 51% of our total revenue for the three months ended June 30, 2016 and 2015, respectively, increasing \$6.3 million, or 2.7%. Our federal customers generated approximately 53% and 50% of our total revenue for the six months ended June 30, 2016 and 2015, respectively, increasing \$38.8 million, or 8.8%. The increase in federal revenues in both periods primarily resulted from the full activation of the South Texas Family Residential Center in the second quarter of 2015, partially offset by a decline in federal populations at our Northeast Ohio Correctional Center. The combined effect of per diem increases for several of our federal contracts and a net increase in federal populations at certain other facilities also contributed to the increase in federal revenues.

Despite our increase in federal revenue, inmate populations in federal facilities, particularly within the BOP system nationwide, have declined over the past two years. Inmate populations in the BOP system declined in 2015 and are expected to decline further in 2016 due, in part, to the retroactive application of changes to sentencing guidelines applicable to federal drug trafficking offenses. However, we do not expect a significant impact on us because BOP inmate populations within our facilities are primarily criminal aliens incarcerated for immigration violations rather than drug trafficking offenses. Further, the public sector BOP correctional system remains overcrowded at approximately 117.2% at June 30, 2016. Nonetheless, increases in capacity within the federal system could result in a decline in BOP populations within our facilities, and could negatively impact the future demand for prison capacity.

State revenues from facilities that we manage decreased 5.0% from the second quarter of 2015 to the second quarter of 2016, and decreased 6.1% from the six months ended June 30, 2015 to the same period in 2016. The decrease in state revenues in both periods was primarily a result of a decline in California inmates held in our out-of-state facilities. In

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addition, the decrease in state revenues was a result of the expiration of our contract with the state of Vermont at our Lee Adjustment Center effective June 30, 2015, and the expiration of our managed-only contract with the state of Louisiana at the state-owned Winn Correctional Facility effective September 30, 2015. The decrease in state revenues was partially offset by the revenue generated at our newly activated Trousdale Turner Correctional Center, and as a result of the acquisitions of Avalon's eleven community corrections facilities in the fourth quarter of 2015 and Correctional Management, Inc., or CMI's, seven community corrections facilities in the second quarter of 2016, each as further described hereafter.

Several of our state partners are projecting improvements in their budgets which has resulted in our ability to secure recent per diem increases at certain facilities. Further, several of our existing state partners, as well as state partners with which we do not currently do business, are experiencing growth in inmate populations and overcrowded conditions. Although we can provide no assurance that we will enter into any new contracts, we believe we are in a good position to not only provide them with needed bed capacity, but with the programming and reentry services they are seeking.

We believe the long-term growth opportunities of our business remain attractive as governments consider efficiency, savings, and offender programming opportunities we can provide. Further, we expect our partners to continue to face challenges in maintaining old facilities, and developing new facilities and additional capacity which could result in future demand for the solutions we provide.

Operating Expenses

Operating expenses totaled \$316.4 million and \$318.0 million for the three months ended June 30, 2016 and 2015, respectively, while operating expenses for the six months ended June 30, 2016 and 2015 totaled \$630.4 million and \$618.7 million, respectively. Operating expenses consist of those expenses incurred in the operation and management of correctional, detention, and residential reentry facilities, as well as at facilities we lease to third-party operators, and for our inmate transportation subsidiary.

Expenses incurred in connection with the operation and management of correctional, detention, and residential reentry facilities decreased \$1.7 million, or 0.5%, during the second quarter of 2016 compared with the same period in 2015. Operating expenses increased \$14.6 million, or 2.4%, during the first six months of 2016 compared with the same period in 2015. Similar to our increase in revenues, operating expenses increased in the six-month period most notably as a result of the full activation of our South Texas Family Residential Center in the second quarter of 2015. The one additional day of operations due to leap year in 2016 also contributed to the increase in operating expenses during the six-month period. The increase in operating expenses in the six-month period was also a result of the activation of the Trousdale Turner Correctional Center in the fourth quarter of 2015, and the acquisitions of Avalon and CMI. The increase in operating expenses in the six-month period was partially offset by a reduction in expenses resulting from the expiration of our BOP contract at our Northeast Ohio Correctional Center effective May 31, 2015, the expiration of our contract with the state of Vermont at our Lee Adjustment Center effective June 30, 2015, and the expiration of our managed-only contract with the state of Louisiana at the state-owned Winn Correctional Facility effective September 30, 2015. In addition, the increase in operating expenses during the six-month period was partially offset by a reduction in expenses that resulted from idling our North Fork Correctional Facility in the fourth quarter

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of 2015. We idled the facility as a result of a decline in California inmates held in our out-of-state program. In May 2016, we announced that we leased the North Fork Correctional Facility to the Oklahoma Department of Corrections, or ODOC. The lease agreement commenced on July 1, 2016, as further described hereafter.

Fixed expenses per compensated man-day increased to \$38.37 during the three months ended June 30, 2016 from \$36.98 during the three months ended June 30, 2015. Fixed expenses per compensated man-day increased to \$39.11 during the six months ended June 30, 2016 from \$36.34 during the same period in 2015. Fixed expenses per compensated man-day for the three and six months ended June 30, 2016 include depreciation expense of \$10.6 million and \$21.2 million, respectively, and interest expense of \$2.7 million and \$5.6 million, respectively, in order to more properly reflect the cash flows associated with the lease at the South Texas Family Residential Center. Fixed expenses per compensated man-day for the three and six months ended June 30, 2015 include depreciation expense of \$8.5 million and interest expense of \$2.2 million associated with the lease at the South Texas Family Residential Center.

Fixed expenses per compensated man-day increased from 2015 to 2016 due primarily to an increase in salaries and benefits per compensated man-day. The increase in salaries and benefits per compensated man-day was partially a result of these expenses being leveraged over smaller offender populations at certain facilities and due to wage adjustments implemented during 2015. The increase in salaries and benefits per compensated man-day was also due to more favorable claims experience in our employee self-insured medical plan in the prior year. As the economy has improved, we have experienced wage pressures in certain markets across the country. We continually monitor compensation levels very closely along with overall economic conditions and will set wage levels necessary to help ensure the long-term success of our business. Salaries and benefits represent the most significant component of our operating expenses, representing approximately 59% of our total operating expenses during 2015 and for the first six months of 2016.

As more fully described in **Risk Factors** in Part II hereafter, in May 2016, the U.S. Department of Labor released updated overtime and exemption rules under the Fair Labor Standards Act. Among other provisions, the updated rules increase the minimum salary needed to qualify for the standard white collar employee exemption from \$455 to \$913 per week, or \$47,476 annually for a full-year worker. The effective date for this provision is December 1, 2016. We are currently in the process of determining the impact the new regulation will have on our payroll costs and results of operations, but we expect to incur additional costs to comply with the revised rules. However, we are also evaluating strategies to mitigate the impact of this new regulation.

Variable expenses per compensated man-day increased \$0.14 and \$1.00, respectively, during the three and six months ended June 30, 2016 from the same periods in the prior year primarily due to expenses incurred during the ramp-up of operations at our Trowsdale Turner Correctional Center.

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Facility Management Contracts

We typically enter into facility contracts to provide prison bed capacity and management services to governmental entities for terms typically from three to five years, with additional renewal periods at the option of the contracting governmental agency. Accordingly, a substantial portion of our facility contracts are scheduled to expire each year, notwithstanding contractual renewal options that a government agency may exercise. Although we generally expect these customers to exercise renewal options or negotiate new contracts with us, one or more of these contracts may not be renewed by the corresponding governmental agency.

Our contract with the District of Columbia, or District, at the D.C. Correctional Treatment Facility is currently scheduled to expire in the first quarter of 2017. We have been provided notice that the District does not plan to renew the contract. We incurred a facility net operating loss at the D.C. Correctional Treatment Facility of \$0.1 million and facility net operating income of \$0.2 million for the three months ended June 30, 2016 and 2015, respectively. We incurred a facility net operating loss at the facility of \$0.5 million for the six months ended June 30, 2016 and the facility was break even for the six months ended June 30, 2015. Our investment in the direct financing lease with the District also expires in the first quarter of 2017. Upon expiration of the lease in 2017, ownership of the facility automatically reverts to the District.

On July 29, 2016, the BOP elected not to renew its contract at our owned and managed 1,129-bed Cibola County Corrections Center located in New Mexico. The contract was scheduled to expire on September 30, 2016. At this time the BOP has not determined when it will begin transferring inmates out of the facility, but we intend to idle the facility upon the completion of transferring out BOP offenders. We have begun to actively market the facility to provide correctional or detention solutions for other customers. During the three and six months ended June 30, 2016, we recognized \$0.9 million and \$2.3 million, respectively, in facility net operating income associated with the facility.

During 2015, ICE solicited proposals for the rebid of our 1,000-bed Houston Processing Center. The contract is currently scheduled to expire in April 2017. We have submitted our response to ICE, but can provide no assurance that we will be awarded a new contract for this facility.

During the second quarter of 2016, ICE solicited proposals for one or more family residential centers for the housing and care of family units detained under the authority of the Immigration and Nationality Act. Simultaneously, ICE engaged us to consider modifying the scale and cost of services currently performed at the South Texas Family Residential Center for the purpose of achieving a more cost-effective solution in light of various policy changes that have occurred since the commencement of the contract. During the three months ended June 30, 2016 and 2015, we recognized \$70.9 million and \$65.9 million, respectively, in total revenue associated with the facility, while we recognized \$141.7 million and \$101.9 million in revenue during the six months ended June 30, 2016 and 2015, respectively. Operating margin percentages at this facility were comparable to those of our average owned and managed facilities during 2015, but have increased during 2016 as expenses have normalized for stabilized operations. We have submitted a proposal to ICE for our South Texas Family Residential Center in response to its request with respect to family unit detention reflecting a lower cost to ICE. Further, we continue to engage ICE in discussions regarding

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