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** | **62-1763875** |
| **(State or other jurisdiction of incorporation or organization)** | **(I.R.S. Employer Identification Number)** |

**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)**

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 x 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 x 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 x | 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 x

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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## 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 |
|---|---|---|
| **ASSETS** | | |
| 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 |
| **LIABILITIES AND STOCKHOLDERS EQUITY** | | |
| 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 |

| | | |
|---|---|---|
| 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.

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**CORRECTIONS CORPORATION OF AMERICA AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF OPERATIONS**

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

| | For the Three Months Ended June 30, | | For the Six Months Ended 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.

**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) |

| | | | | |
|---|---|---|---|---|
| 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.

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**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 Paid-in | Accumulated | Total Stockholders |
|---|---|---|---|---|---|
| | Shares | Par Value | Capital | Deficit | 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.

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**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 Paid-in | Accumulated | Total Stockholders |
|---|---|---|---|---|---|
| | Shares | Par Value | Capital | Deficit | 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.

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**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.

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**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 | Net Carrying Values 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 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.

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## 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

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.

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.

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 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 |

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 |

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## 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 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| 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 |
| **LIABILITIES AND STOCKHOLDERS EQUITY** | | | | |
| 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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**CONDENSED CONSOLIDATING BALANCE SHEET**

**As of December 31, 2015**

(in thousands)

| | Parent | Combined Subsidiary Guarantors | Consolidating Adjustments and Other | Total Consolidated Amounts |
|---|---|---|---|---|
| **ASSETS** | | | | |
| 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 |
| **LIABILITIES AND STOCKHOLDERS EQUITY** | | | | |
| 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) | |