

CORRECTIONS CORP OF AMERICA

Form 10-Q

May 07, 2015

[Table of Contents](#)

**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: MARCH 31, 2015**

**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 May 1, 2015:

Shares of Common Stock, \$0.01 par value per share: 117,023,243 shares outstanding.

**Table of Contents**

**CORRECTIONS CORPORATION OF AMERICA**

**FORM 10-Q**

**FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2015**

**INDEX**

	PAGE
<b><u>PART I FINANCIAL INFORMATION</u></b>	
Item 1. <u>Financial Statements</u>	
a) <u>Consolidated Balance Sheets (Unaudited) as of March 31, 2015 and December 31, 2014</u>	1
b) <u>Consolidated Statements of Operations (Unaudited) for the three months ended March 31, 2015 and 2014</u>	2
c) <u>Consolidated Statements of Cash Flows (Unaudited) for the three months ended March 31, 2015 and 2014</u>	3
d) <u>Consolidated Statement of Stockholders' Equity (Unaudited) for the three months ended March 31, 2015</u>	4
e) <u>Consolidated Statement of Stockholders' Equity (Unaudited) for the three months ended March 31, 2014</u>	5
f) <u>Notes to Consolidated Financial Statements (Unaudited)</u>	6
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	25
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	46
Item 4. <u>Controls and Procedures</u>	46
<b><u>PART II OTHER INFORMATION</u></b>	
Item 1. <u>Legal Proceedings</u>	47
Item 1A. <u>Risk Factors</u>	47
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	47
Item 3. <u>Defaults Upon Senior Securities</u>	47
Item 4. <u>Mine Safety Disclosures</u>	47
Item 5. <u>Other Information</u>	47
Item 6. <u>Exhibits</u>	48
<b><u>SIGNATURES</u></b>	49

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)

	<b>March 31, 2015</b>	December 31, 2014
<b><u>ASSETS</u></b>		
Cash and cash equivalents	\$ 74,022	\$ 74,393
Restricted cash	2,254	
Accounts receivable, net of allowance of \$2,269 and \$748, respectively	226,275	248,588
Current deferred tax assets	11,414	13,229
Prepaid expenses and other current assets	29,213	29,775
<b>Total current assets</b>	<b>343,178</b>	365,985
Property and equipment, net	2,720,082	2,658,628
Restricted cash	105	2,858
Investment in direct financing lease	2,617	3,223
Goodwill	15,155	16,110
Non-current deferred tax assets	3,479	2,301
Other assets	75,155	78,086
<b>Total assets</b>	<b>\$ 3,159,771</b>	\$ 3,127,191
<b><u>LIABILITIES AND STOCKHOLDERS EQUITY</u></b>		
Accounts payable and accrued expenses	\$ 316,149	\$ 317,566
Income taxes payable	659	1,368
Current liabilities of discontinued operations		54
<b>Total current liabilities</b>	<b>316,808</b>	318,988
Long-term debt	1,240,000	1,200,000
Deferred revenue	91,607	87,227
Other liabilities	37,740	39,476
<b>Total liabilities</b>	<b>1,686,155</b>	1,645,691
Commitments and contingencies		
Preferred stock \$0.01 par value; 50,000 shares authorized; none issued and outstanding at March 31, 2015 and December 31, 2014, respectively		
Common stock \$0.01 par value; 300,000 shares authorized; 117,000 and 116,764 shares issued and outstanding at March 31, 2015 and December 31, 2014,	1,170	1,168

respectively

Additional paid-in capital	<b>1,746,727</b>	1,748,303
Accumulated deficit	<b>(274,281)</b>	(267,971)
<b>Total stockholders' equity</b>	<b>1,473,616</b>	1,481,500
<b>Total liabilities and stockholders' equity</b>	<b>\$ 3,159,771</b>	\$ 3,127,191

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)

	<b>For the Three Months Ended March 31,</b>	
	<b>2015</b>	<b>2014</b>
<b>REVENUES</b>	<b>\$ 426,000</b>	<b>\$ 404,222</b>
<b>EXPENSES:</b>		
Operating	<b>300,662</b>	287,380
General and administrative	<b>26,872</b>	25,392
Depreciation and amortization	<b>28,685</b>	28,384
Asset impairments	<b>955</b>	
	<b>357,174</b>	341,156
<b>OPERATING INCOME</b>	<b>68,826</b>	63,066
<b>OTHER (INCOME) EXPENSE:</b>		
Interest expense, net	<b>10,190</b>	10,348
Other income	<b>(26)</b>	(387)
	<b>10,164</b>	9,961
<b>INCOME BEFORE INCOME TAXES</b>	<b>58,662</b>	53,105
Income tax expense	<b>(1,385)</b>	(1,367)
<b>NET INCOME</b>	<b>\$ 57,277</b>	<b>\$ 51,738</b>
<b>BASIC EARNINGS PER SHARE</b>	<b>\$ 0.49</b>	\$ 0.45
<b>DILUTED EARNINGS PER SHARE</b>	<b>\$ 0.49</b>	\$ 0.44
<b>REGULAR DIVIDENDS DECLARED PER SHARE</b>	<b>\$ 0.54</b>	\$ 0.51

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 Three Months Ended March 31,	
	2015	2014
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 57,277	\$ 51,738
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	28,685	28,384
Asset impairments	955	
Amortization of debt issuance costs and other non-cash interest	776	771
Deferred income taxes	637	(995)
Non-cash revenue and other income	(496)	(496)
Income tax benefit of equity compensation	(379)	(103)
Non-cash equity compensation	3,798	3,293
Other expenses and non-cash items	1,545	2,316
Changes in assets and liabilities, net:		
Accounts receivable, prepaid expenses and other assets	22,930	7,610
Accounts payable, accrued expenses and other liabilities	1,788	(26,655)
Income taxes payable	(330)	719
Net cash provided by operating activities	117,186	66,582
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Expenditures for facility development and expansions	(63,366)	(18,507)
Expenditures for other capital improvements	(14,562)	(8,573)
Capitalized lease payments	(16,283)	
Proceeds from sale of assets	45	192
Decrease (increase) in other assets	2,048	(314)
Payments received on direct financing lease and notes receivable	537	476
Net cash used in investing activities	(91,581)	(26,726)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from issuance of debt	70,000	35,000
Principal repayments of debt	(30,000)	(45,000)
Dividends paid	(61,136)	(56,267)
Income tax benefit of equity compensation	379	103
Purchase and retirement of common stock	(9,261)	(2,768)
Decrease in restricted cash for dividends	500	
Proceeds from exercise of stock options	3,542	3,838

Net cash used in financing activities	(25,976)	(65,094)
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(371)</b>	<b>(25,238)</b>
<b>CASH AND CASH EQUIVALENTS, beginning of period</b>	<b>74,393</b>	<b>77,919</b>
<b>CASH AND CASH EQUIVALENTS, end of period</b>	<b>\$ 74,022</b>	<b>\$ 52,681</b>
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:</b>		
Cash paid during the period for:		
Interest (net of amounts capitalized of \$1,196 and \$435 in 2015 and 2014, respectively)	\$ 2,099	\$ 2,476
Income taxes paid	\$ 1,167	\$ 224

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 THREE MONTHS ENDED MARCH 31, 2015**

(UNAUDITED AND AMOUNTS IN THOUSANDS)

	<b>Common Stock</b>		<b>Additional</b>	<b>Accumulated</b>	<b>Total</b>
	<b>Shares</b>	<b>Par Value</b>	<b>Paid-in</b>	<b>Deficit</b>	<b>Stockholders</b>
			<b>Capital</b>		<b>Equity</b>
Balance as of December 31, 2014	116,764	\$ 1,168	\$ 1,748,303	\$ (267,971)	\$ 1,481,500
Net income				57,277	57,277
Retirement of common stock	(230)	(2)	(9,259)		(9,261)
Regular dividends declared on common stock (\$0.54 per share)				(63,621)	(63,621)
Restricted stock compensation, net of forfeitures	(3)		3,392	34	3,426
Income tax benefit of equity compensation			379		379
Stock option compensation expense, net of forfeitures			372		372
Restricted stock grants	293	3			3
Stock options exercised	176	1	3,540		3,541
<b>Balance as of March 31, 2015</b>	<b>117,000</b>	<b>\$ 1,170</b>	<b>\$ 1,746,727</b>	<b>\$ (274,281)</b>	<b>\$ 1,473,616</b>

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 THREE MONTHS ENDED MARCH 31, 2014**

(UNAUDITED AND AMOUNTS IN THOUSANDS)

	<b>Common Stock</b>		<b>Additional</b>	<b>Accumulated</b>	<b>Total</b>
	<b>Shares</b>	<b>Par Value</b>	<b>Paid-in</b>	<b>Deficit</b>	<b>Stockholders</b>
			<b>Capital</b>		<b>Equity</b>
Balance as of December 31, 2013	115,923	\$ 1,159	\$ 1,725,363	\$ (224,015)	\$ 1,502,507
Net income				51,738	51,738
Retirement of common stock	(84)	(1)	(2,767)		(2,768)
Regular dividends declared on common stock (\$0.51 per share)				(59,697)	(59,697)
Restricted stock compensation, net of forfeitures	(3)		2,661	20	2,681
Income tax benefit of equity compensation			103		103
Stock option compensation expense, net of forfeitures			612		612
Restricted stock grants	245	2			2
Stock options exercised	258	3	3,835		3,838
Balance as of March 31, 2014	116,339	\$ 1,163	\$ 1,729,807	\$ (231,954)	\$ 1,499,016

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

**Table of Contents**

**CORRECTIONS CORPORATION OF AMERICA AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**  
**MARCH 31, 2015**

**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 and detention facilities and one of the largest prison operators in the United States. As of March 31, 2015, CCA owned or controlled 50 correctional and detention facilities, and managed an additional 12 facilities owned by its government partners, with a total design capacity of approximately 81,500 beds in 19 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 re-entry, 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 re-entry 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, 2014 filed with the Securities and Exchange Commission (the SEC) on February 25, 2015 (File No. 001-16109) (the 2014 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 Financial Accounting Standards Board ( 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 is currently effective for interim and annual periods beginning after December 15, 2016 and early adoption of the ASU is not permitted. In April 2015, the FASB announced it proposed a one-year deferral of the effective date which, if approved, would defer the effective date for public reporting entities to interim and annual periods beginning after December 15, 2017. Early adoption would be allowed as of the original effective date for public companies. CCA is reviewing the ASU to determine the potential impact it might have on the Company 's results of operations, cash flows, or financial position and its related financial statement disclosures, along with evaluating which transition method will be utilized upon adoption.

In April 2015, the FASB issued ASU 2015-03, Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs . Under the new standard, debt issuance costs will be presented as a direct deduction from the face amount of the related liability, rather than as a deferred charge, or asset, on the balance sheet as currently required. For public reporting entities such as CCA, guidance in ASU 2015-03 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. While it is permitted, CCA does not currently plan to adopt the new requirements of the ASU earlier than the effective date. The unamortized balance of debt issuance costs amounted to \$13.6 million and \$14.3 million as of March 31, 2015 and December 31, 2014, respectively, and is reflected within other long-term assets in the accompanying consolidated balance sheet.

**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 March 31, 2015 and December 31, 2014, 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):

	March 31, 2015		December 31, 2014	
	Carrying		Carrying	
	Amount	Fair Value	Amount	Fair Value
Investment in direct financing lease	\$ 4,936	\$ 5,398	\$ 5,473	\$ 6,048
Note receivable from APM	\$ 3,511	\$ 6,244	\$ 3,677	\$ 6,539
Debt	\$ (1,240,000)	\$ (1,248,375)	\$ (1,200,000)	\$ (1,179,625)

---

**Table of Contents****Revenue Recognition Multiple-Element Arrangement**

In September 2014, CCA agreed under an expansion of an existing inter-governmental service agreement ( IGSA ) between the city of Eloy, Arizona and the U.S. Immigration and Customs Enforcement ( ICE ) to provide residential space and services at the newly activated South Texas Family Residential Center. The amended IGSA qualifies as a multiple-element arrangement under the guidance in ASC 605, Revenue Recognition . CCA evaluates 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 ( VSOE ) of selling price, if available, third party evidence ( TPE ) if VSOE of selling price is not available, or estimated selling price ( ESP ) if neither VSOE of selling price nor TPE is available. CCA establishes VSOE of selling price using the price charged for a deliverable when sold separately. CCA establishes TPE of selling price by evaluating similar products or services in standalone sales to similarly situated customers. CCA establishes ESP based on management judgment considering internal factors such as margin objectives, pricing practices and controls, and market conditions. In arrangements with multiple elements, CCA allocates the transaction price to the individual units of accounting at inception of the arrangement based on their relative selling price.

**3. GOODWILL**

ASC 350, Intangibles-Goodwill and Other , establishes accounting and reporting requirements for goodwill and other intangible assets. Goodwill was \$15.2 million and \$16.1 million as of March 31, 2015 and December 31, 2014, respectively. This goodwill was established in connection with the acquisition of Correctional Alternatives, Inc. ( CAI ) during the third quarter of 2013, and the acquisitions of two service companies during 2000.

CCA applies the FASB s ASU 2011-08, Intangibles-Goodwill and Other , which gives companies the option to perform a qualitative assessment that may allow them to skip the annual two-step impairment test. Under the amendments in ASU 2011-08, 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 CCA s 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.

**Table of Contents**

In early April 2015, CCA provided notice to the state of Louisiana that it will cease management of the Winn Correctional Center within 180 days, in accordance with the notice provisions of the contract. In anticipation of terminating the contract at this facility, CCA recorded an asset impairment of \$1.0 million during the first quarter of 2015 for the write-off of goodwill associated with the Winn facility. CCA generated operating income of \$0.2 million at this facility for the three months ended March 31, 2014, and incurred an operating loss of \$2.5 million (including the write-off of goodwill) for the three months ended March 31, 2015.

**4. REAL ESTATE TRANSACTIONS****Idle Facilities**

CCA has five idled facilities that are currently available and being actively marketed to other customers. 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	
			March 31, 2015	December 31, 2014
Prairie Correctional Facility	1,600	2010	\$ 18,459	\$ 18,748
Huerfano County Correctional Center	752	2010	18,844	19,033
Diamondback Correctional Facility	2,160	2010	44,113	44,480
Otter Creek Correctional Center	656	2012	23,881	24,089
Marion Adjustment Center	826	2013	12,868	12,978
	5,994		\$ 118,165	\$ 119,328

For the three months ended March 31, 2015 and 2014, the five idled facilities incurred combined operating expenses of approximately \$1.8 million and \$1.9 million, respectively. The operating expenses incurred in 2014 exclude the incremental expenses incurred in connection with the activation of the Diamondback facility which began in the third quarter of 2013 and continued until near the end of the second quarter of 2014, when anticipated opportunities to activate the facility were deferred.

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. Upon notification of cancellation by the respective customers, CCA concluded in each case that no impairment had occurred. 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 five idled facilities to have recoverable values in excess of the corresponding carrying values.

**Construction of New Facilities**

In order to retain federal inmate populations CCA currently manages in the 1,154-bed San Diego Correctional Facility, CCA is constructing the 1,492-bed Otay Mesa Detention Center in San Diego. The existing San Diego Correctional Facility is subject



## **Table of Contents**

to a ground lease with the County of San Diego. Under the provisions of the lease, the facility is divided into different premises whereby, pursuant to an amendment to the ground lease executed in January 2010, ownership of the entire facility reverts to the County upon expiration of the lease on December 31, 2015. As of March 31, 2015, CCA has invested approximately \$136.1 million in the new facility. CCA expects to complete construction of the Otay Mesa Detention Center during the third quarter of 2015. CCA plans to offer this new facility to house the existing federal inmate populations at the San Diego Correctional Facility.

In November 2013, CCA announced its decision to re-commence construction of a correctional facility in Trousdale County, Tennessee. CCA suspended construction of this facility in 2009 until it had greater clarity around the timing of a new contract. In October 2013, Trousdale County received notice from the Tennessee Department of Corrections of its intent to partner with the County to develop a new correctional facility to house state of Tennessee inmates. In April 2014, CCA entered into an agreement with Trousdale County whereby CCA agreed to finance, design, build 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. In July 2014, CCA received notice that Trousdale County and the state of Tennessee finalized the IGSA. 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, provided that during a twenty-six week ramp period the minimum payment is based on the greater of the number of inmates actually at the facility or 90% of the beds available pursuant to the ramp schedule. As of March 31, 2015, CCA has invested approximately \$87.4 million in the Trousdale Turner Correctional Center and construction is expected to be completed in the fourth quarter of 2015.

## **Activations**

In September 2014, CCA announced that it had agreed under an expansion of an existing IGSA between the City of Eloy, Arizona and ICE to house up to 2,400 individuals at the South Texas Family Residential Center, a facility leased by CCA in Dilley, Texas. Services provided under the amended IGSA commenced in the fourth quarter of 2014, have a term of up to four years, and can be extended by bi-lateral modifications. The agreement provides for a fixed monthly payment in accordance with a graduated schedule. Under terms of the amended IGSA, ICE can terminate the agreement for convenience, without penalty, by providing CCA with at least a 90-day notice. In addition, terms allow for ICE to terminate the agreement with CCA at any time, without penalty, due to a non-appropriation of funds. ICE began housing the first residents at the facility in December 2014, and the site is expected to be ready for full capacity during the second quarter of 2015.

Under the fixed monthly payment schedule of the amended IGSA, ICE agreed to pay CCA \$70.0 million in two \$35.0 million installments during the fourth quarter of 2014 and graduated fixed monthly payments over the remaining months of the contract. As described in Note 2, CCA used the multiple-element arrangement guidance prescribed in ASC 605, Revenue Recognition in determining the total revenue to be recognized over the term of the amended IGSA. CCA determined that there were five distinct elements related to the amended IGSA with ICE. In the first quarter of 2015, CCA



**Table of Contents**

recognized \$36.0 million in revenue associated with the amended IGSA with the unrecognized balance of the fixed monthly payments 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 sheet as of March 31, 2015.

In January 2015, a class action lawsuit was filed in federal district court for the District of Columbia against the Secretary of the Department of Homeland Security ( DHS ) and certain ICE officials. The complaint sought to certify a class of plaintiffs, consisting of Central American mothers and children who (i) have been or will be detained in ICE family detention facilities since June 2014, (ii) have been or will be determined to have a credible fear of persecution in their home country under federal asylum laws and (iii) are eligible for release on bond pursuant to certain federal statutes but have been or will be denied such release after being subject to an ICE custody determination that took deterrence of mass migration into account. In February 2015, the court certified the class and granted the plaintiffs motion for a preliminary injunction, enjoining DHS from detaining class members for the purpose of deterring future immigration to the United States and from considering deterrence of such immigration as a factor in such custody determinations until a final determination has been reached on the merits of the action. On March 20, 2015, DHS moved the court to reconsider and vacate its order, arguing that the relief the court granted exceeded that which was appropriate in the case. Plaintiffs responded to the DHS motion, and DHS has until May 8, 2015, to submit a response to that filing. Any adverse decision with regard to this contract could materially affect CCA's financial condition and results of operations.

**5. DEBT**

Debt outstanding as of March 31, 2015 and December 31, 2014 consists of the following (in thousands):

	<b>March 31, 2015</b>	December 31, 2014
Revolving Credit Facility, principal due at maturity in December 2017; interest payable periodically at variable interest rates. The weighted average rate at both March 31, 2015 and December 31, 2014 was 1.9%.	<b>\$ 565,000</b>	\$ 525,000
4.625% Senior Notes, principal due at maturity in May 2023; interest payable semi-annually in May and November at 4.625%.	<b>350,000</b>	350,000
4.125% Senior Notes, principal due at maturity in April 2020; interest payable semi-annually in April and October at 4.125%.	<b>325,000</b>	325,000
	<b>\$ 1,240,000</b>	\$ 1,200,000

*Revolving Credit Facility.* During March 2013, CCA entered into an amended and restated \$900.0 million senior secured revolving credit facility (the "\$900.0 Million Revolving Credit Facility"). In addition to replacing the previous \$785.0 million revolving credit facility, the amendment extended the maturity by one year to December 2017, and provided covenant flexibility to operate as a REIT.

---

**Table of Contents**

The \$900.0 Million Revolving Credit Facility has an aggregate principal capacity of \$900.0 million and 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 \$100.0 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 0.25% to 1.0% or a London Interbank Offered Rate (LIBOR) plus a margin ranging from 1.25% to 2.0% 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 currently bear interest at the base rate plus a margin of 0.75% or at LIBOR plus a margin of 1.75%, 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 March 31, 2015, CCA had \$565.0 million in borrowings under the \$900.0 Million Revolving Credit Facility as well as \$16.3 million in letters of credit outstanding resulting in \$318.7 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 March 31, 2015, 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, acquisitions and other investments, 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.

*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. The 4.125% Senior Notes and the 4.625% 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.

**Table of Contents**

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.

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

During 2014 and the first quarter of 2015, CCA's Board of Directors declared the following quarterly dividends on its common stock:

Declaration Date	Record Date	Payable Date	Per Share
February 20, 2014	April 2, 2014	April 15, 2014	\$ 0.51
May 15, 2014	July 2, 2014	July 15, 2014	\$ 0.51
August 14, 2014	October 2, 2014	October 15, 2014	\$ 0.51
December 11, 2014	January 2, 2015	January 15, 2015	\$ 0.51
February 20, 2015	April 2, 2015	April 15, 2015	\$ 0.54

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 quarter of 2015 and during 2014, 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 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 March 31, 2015 and 2014, CCA expensed \$0.4 million and \$0.6 million, respectively, net of estimated forfeitures, relating to its outstanding stock options, all of which was charged to general and administrative expenses. As of March 31, 2015, options to purchase 1.7 million shares of common stock were outstanding with a weighted average exercise price of \$19.98.

**Restricted Stock and Restricted Stock Units**

During the first quarter of 2015, CCA issued 421,000 shares of restricted common stock units ( RSUs ) to certain of its employees and non-employee directors, with an aggregate fair value of \$16.9 million, including 370,000 RSUs to employees and non-employee directors whose compensation is charged to general and administrative expenses and 51,000 RSUs to employees whose compensation is charged to operating expense. During 2014, CCA issued 548,000 shares of RSUs to certain of its employees and non-employee directors, with an aggregate fair value of \$17.8 million, including 478,000 RSUs to employees and non-employee directors whose compensation is charged to general and administrative expense and 70,000 RSUs to employees whose compensation is charged to operating expense.

**Table of Contents**

CCA established performance-based vesting conditions on the shares of restricted common stock and RSUs awarded to its officers and executive officers in 2015 and 2014 and in years prior to 2013. Unless earlier vested under the terms of the agreements, shares or RSUs issued to officers and executive officers in these years are subject to vesting over a three-year period based upon the satisfaction of certain performance criteria. With respect to the RSUs issued in 2015 to officers and executive officers, annual performance criteria was established for each of the three years ending December 31, 2015, 2016, and 2017, and no more than one-third of the RSUs may vest in any one performance period. With respect to RSUs issued in 2014 and in years prior to 2013, 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. With respect to the RSUs issued in 2013 to officers and executive officers, unless earlier vested under the terms of the RSU agreement, the RSUs issued vest evenly over a three-year period and are not subject to performance-based criteria. Shares of restricted stock and RSUs issued to other employees, unless earlier vested under the terms of the agreements, cliff vest on the third anniversary of the award, while RSUs issued to non-employee directors vest one year from the date of award.

During the three months ended March 31, 2015, CCA expensed \$3.4 million, net of forfeitures, relating to restricted common stock and RSUs (\$0.4 million of which was recorded in operating expenses and \$3.0 million of which was recorded in general and administrative expenses). During the three months ended March 31, 2014, CCA expensed \$2.7 million, net of forfeitures, relating to restricted common stock and RSUs (\$0.3 million of which was recorded in operating expenses and \$2.4 million of which was recorded in general and administrative expenses). As of March 31, 2015, approximately 1.0 million shares of restricted common stock and RSUs remained outstanding and subject to vesting.

**7. 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.

**Table of Contents**

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 March 31,	
	2015	2014
<b>NUMERATOR</b>		
<b>Basic:</b>		
Net income	\$ 57,277	\$ 51,738
<b>Diluted:</b>		
Net income	\$ 57,277	\$ 51,738
<b>DENOMINATOR</b>		
<b>Basic:</b>		
Weighted average common shares outstanding	116,634	115,773
<b>Diluted:</b>		
Weighted average common shares outstanding	116,634	115,773
Effect of dilutive securities:		
Stock options	869	963
Restricted stock-based compensation	265	224
Weighted average shares and assumed conversions	117,768	116,960
<b>BASIC EARNINGS PER SHARE</b>	<b>\$ 0.49</b>	<b>\$ 0.45</b>
<b>DILUTED EARNINGS PER SHARE</b>	<b>\$ 0.49</b>	<b>\$ 0.44</b>

Approximately 15,900 stock options were excluded from the computation of diluted earnings per share for the three months ended March 31, 2014 because they were anti-dilutive. There were no stock options excluded from the computation of diluted earnings per share for the three months ended March 31, 2015.

**8. 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. In February 2014, CCA reached an agreement with the state of Idaho regarding contractual disputes related to staffing at the Idaho Correctional Center. In addition, CCA was notified that an investigation by the FBI was being undertaken and CCA received additional inquiries from other government

partners concerning matters related to the Idaho Correctional Center. 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,

## **Table of Contents**

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 or from the investigation or inquiries described above, 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 \$18.6 million at March 31, 2015 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

---

**Table of Contents**

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 2017 at no cost. Therefore, CCA does not currently believe the state of Tennessee will exercise its option to purchase the facility. At March 31, 2015, the outstanding principal balance of the bonds exceeded the purchase price option by \$8.4 million.

**9. 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. Therefore, the Company should not be subject to federal income taxes if it distributes 100 percent of its taxable income. 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 \$1.4 million for both the three months ended March 31, 2015 and 2014. 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, changes in estimates related to uncertain tax



## **Table of Contents**

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 March 31, 2015. 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 increase or decrease in the next twelve months.

### **10. SEGMENT REPORTING**

As of March 31, 2015, CCA owned and managed 47 correctional and detention facilities, and managed 12 correctional and detention facilities it did not own. In addition, CCA owned three 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 correctional and detention facilities and (2) managed-only correctional and detention 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 correctional and detention 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.

**Table of Contents**

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 months ended March 31, 2015 and 2014 (in thousands):

	For the Three Months Ended March 31,	
	2015	2014
<b>Revenue:</b>		
Owned and managed	<b>\$ 363,964</b>	\$ 334,912
Managed-only	<b>52,944</b>	64,003
Total management revenue	<b>416,908</b>	398,915
<b>Operating expenses:</b>		
Owned and managed	<b>244,300</b>	227,648
Managed-only	<b>48,009</b>	58,445
Total operating expenses	<b>292,309</b>	286,093
<b>Facility net operating income</b>		
Owned and managed	<b>119,664</b>	107,264
Managed-only	<b>4,935</b>	5,558
Total facility net operating income	<b>124,599</b>	112,822
<b>Other revenue (expense):</b>		
Rental and other revenue	<b>9,092</b>	5,307
Other operating expense	<b>(8,353)</b>	(1,287)
General and administrative expense	<b>(26,872)</b>	(25,392)
Depreciation and amortization	<b>(28,685)</b>	(28,384)
Asset impairments	<b>(955)</b>	
Operating income	<b>\$ 68,826</b>	\$ 63,066

The following table summarizes capital expenditures for the three months ended March 31, 2015 and 2014 (in thousands):

	For the Three Months Ended March 31,	
	2015	2014
<b>Capital expenditures:</b>		
Owned and managed	<b>\$ 82,834</b>	\$ 25,620
Managed-only	<b>731</b>	632
Corporate and other	<b>7,614</b>	1,032

Total capital expenditures	<b>\$ 91,179</b>	\$ 27,284
----------------------------	------------------	-----------

The total assets are as follows (in thousands):

	<b>March 31, 2015</b>	December 31, 2014
<b>Assets:</b>		
Owned and managed	<b>\$ 2,784,343</b>	\$ 2,745,905
Managed-only	<b>63,513</b>	68,146
Corporate and other	<b>311,915</b>	313,140
<b>Total assets</b>	<b>\$ 3,159,771</b>	\$ 3,127,191

Table of Contents**11. 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 March 31, 2015

(in thousands)

	Parent	Combined Subsidiary Guarantors	Consolidating Adjustments and Other	Total Consolidated Amounts
<b><u>ASSETS</u></b>				
Cash and cash equivalents	\$ 20,456	\$ 53,566	\$	\$ 74,022
Restricted cash	662	1,592		2,254
Accounts receivable, net of allowance	172,348	149,751	(95,824)	226,275
Current deferred tax assets	152	11,262		11,414
Prepaid expenses and other current assets	3,888	33,514	(8,189)	29,213
Total current assets	197,506	249,685	(104,013)	343,178
Property and equipment, net	2,485,077	235,005		2,720,082
Restricted cash	105			105
Investment in direct financing lease	2,617			2,617
Goodwill		15,155		15,155
Non-current deferred tax assets		3,892	(413)	3,479
Other assets	239,176	45,874	(209,895)	75,155
Total assets	\$ 2,924,481	\$ 549,611	\$ (314,321)	\$ 3,159,771
<b><u>LIABILITIES AND STOCKHOLDERS' EQUITY</u></b>				
Accounts payable and accrued expenses	\$ 209,626	\$ 210,502	\$ (103,979)	\$ 316,149
Income taxes payable	1	658		659
Total current liabilities	209,627	211,160	(103,979)	316,808
Long-term debt	1,240,000	115,000	(115,000)	1,240,000
Non-current deferred tax liabilities	413		(413)	
Deferred revenue		91,607		91,607
Other liabilities	825	36,915		37,740
Total liabilities	1,450,865	454,682	(219,392)	1,686,155
Total stockholders' equity	1,473,616	94,929	(94,929)	1,473,616

Total liabilities and stockholders equity	\$ 2,924,481	\$ 549,611	\$ (314,321)	\$ 3,159,771
---	--------------	------------	--------------	--------------

Table of Contents**CONDENSED CONSOLIDATING BALANCE SHEET**

As of December 31, 2014

(in thousands)

	Parent	Combined Subsidiary Guarantors	Consolidating Adjustments and Other	Total Consolidated Amounts
<b><u>ASSETS</u></b>				
Cash and cash equivalents	\$ 12,337	\$ 62,056	\$	\$ 74,393
Accounts receivable, net of allowance	167,626	178,911	(97,949)	248,588
Current deferred tax assets		13,241	(12)	13,229
Prepaid expenses and other current assets	17,060	34,705	(21,990)	29,775
Total current assets	197,023	288,913	(119,951)	365,985
Property and equipment, net	2,459,053	199,575		2,658,628
Restricted cash	1,267	1,591		2,858
Investment in direct financing lease	3,223			3,223
Goodwill		16,110		16,110
Non-current deferred tax assets		2,778	(477)	2,301
Other assets	241,690	47,046	(210,650)	78,086
Total assets	\$ 2,902,256	\$ 556,013	\$ (331,078)	\$ 3,127,191
<b><u>LIABILITIES AND STOCKHOLDERS EQUITY</u></b>				
Accounts payable and accrued expenses	\$ 218,403	\$ 205,213	\$ (106,050)	\$ 317,566
Income taxes payable	195	1,173		1,368
Current deferred tax liabilities	13		(13)	
Note payable to an affiliate		13,854	(13,854)	
Current liabilities of discontinued operations		54		54
Total current liabilities	218,611	220,294	(119,917)	318,988
Long-term debt	1,200,000	115,000	(115,000)	1,200,000
Non-current deferred tax liabilities	477		(477)	
Deferred revenue		87,227		87,227
Other liabilities	1,668	37,808		39,476
Total liabilities	1,420,756	460,329	(235,394)	1,645,691
Total stockholders equity	1,481,500	95,684	(95,684)	1,481,500
Total liabilities and stockholders equity	\$ 2,902,256	\$ 556,013	\$ (331,078)	\$ 3,127,191



Table of Contents**CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS****For the three months ended March 31, 2015**

(in thousands)

	Parent	Combined Subsidiary Guarantors	Consolidating Adjustments and Other	Total Consolidated Amounts
<b>REVENUES</b>	<b>\$ 303,040</b>	<b>\$ 335,223</b>	<b>\$ (212,263)</b>	<b>\$ 426,000</b>
<b>EXPENSES:</b>				
Operating	221,677	291,248	(212,263)	300,662
General and administrative	8,800	18,072		26,872
Depreciation and amortization	20,069	8,616		28,685
Asset impairments		955		955
	<b>250,546</b>	<b>318,891</b>	<b>(212,263)</b>	<b>357,174</b>
<b>OPERATING INCOME</b>	<b>52,494</b>	<b>16,332</b>		<b>68,826</b>
<b>OTHER (INCOME) EXPENSE:</b>				
Interest expense, net	8,427	1,763		10,190
Other (income) expense	171	(121)	(76)	(26)
	<b>8,598</b>	<b>1,642</b>	<b>(76)</b>	<b>10,164</b>
<b>INCOME BEFORE INCOME TAXES</b>	<b>43,896</b>	<b>14,690</b>	<b>76</b>	<b>58,662</b>
Income tax expense	(176)	(1,209)		(1,385)
<b>INCOME BEFORE EQUITY IN SUBSIDIARIES</b>	<b>43,720</b>	<b>13,481</b>	<b>76</b>	<b>57,277</b>
Income from equity in subsidiaries	13,557		(13,557)	
<b>NET INCOME</b>	<b>\$ 57,277</b>	<b>\$ 13,481</b>	<b>\$ (13,481)</b>	<b>\$ 57,277</b>



Table of Contents**CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS****For the three months ended March 31, 2014**

(in thousands)

	<b>Parent</b>	<b>Combined Subsidiary Guarantors</b>	<b>Consolidating Adjustments and Other</b>	<b>Total Consolidated Amounts</b>
<b>REVENUES</b>	\$ 306,248	\$ 311,247	\$ (213,273)	\$ 404,222
<b>EXPENSES:</b>				
Operating	219,705	280,948	(213,273)	287,380
General and administrative	8,676	16,716		25,392
Depreciation and amortization	19,769	8,615		28,384
	248,150	306,279	(213,273)	341,156
<b>OPERATING INCOME</b>	58,098	4,968		63,066
<b>OTHER (INCOME) EXPENSE:</b>				
Interest expense, net	8,602	1,746		10,348
Other (income) expense	(38)	(79)	(270)	(387)
	8,564	1,667	(270)	9,961
<b>INCOME BEFORE INCOME TAXES</b>	49,534	3,301	270	53,105
Income tax expense	(220)	(1,147)		(1,367)
<b>INCOME BEFORE EQUITY IN SUBSIDIARIES</b>	49,314	2,154	270	51,738
Income from equity in subsidiaries	2,424		(2,424)	
<b>NET INCOME</b>	\$ 51,738	\$ 2,154	\$ (2,154)	\$ 51,738

Table of Contents**CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS****For the three months ended March 31, 2015**

(in thousands)

	<b>Parent</b>	<b>Combined Subsidiary Guarantors</b>	<b>Consolidating Adjustments And Other</b>	<b>Total Consolidated Amounts</b>
Net cash provided by operating activities	\$ 65,048	\$ 52,138	\$	\$ 117,186
Net cash used in investing activities	(32,119)	(32,463)	(26,999)	(91,581)
Net cash provided by (used in) financing activities	(24,810)	(28,165)	26,999	(25,976)
Net increase (decrease) in cash and cash equivalents	8,119	(8,490)		(371)
CASH AND CASH EQUIVALENTS, beginning of period	12,337	62,056		74,393
CASH AND CASH EQUIVALENTS, end of period	\$ 20,456	\$ 53,566	\$	\$ 74,022

**CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS****For the three months ended March 31, 2014**

(in thousands)

	<b>Parent</b>	<b>Combined Subsidiary Guarantors</b>	<b>Consolidating Adjustments And Other</b>	<b>Total Consolidated Amounts</b>
Net cash provided by (used in) operating activities	\$ 86,628	\$ (20,046)	\$	\$ 66,582
Net cash used in investing activities	(24,008)	(2,718)		(26,726)
Net cash provided by (used in) financing activities	(66,062)	968		(65,094)
Net decrease in cash and cash equivalents	(3,442)	(21,796)		(25,238)
CASH AND CASH EQUIVALENTS, beginning of period	31,647	46,272		77,919
CASH AND CASH EQUIVALENTS, end of period	\$ 28,205	\$ 24,476	\$	\$ 52,681

**Table of Contents**

**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 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 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 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 impact of any changes to immigration reform and sentencing laws (Our policy prohibits us from engaging in lobbying or advocacy efforts that would influence enforcement efforts, parole standards, criminal laws, and sentencing policies.);

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. 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.

## **Table of Contents**

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 detail in the 2014 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 2014 Form 10-K.

## **OVERVIEW**

### **The Company**

As of March 31, 2015, we owned or controlled 50 correctional and detention facilities and managed an additional 12 facilities owned by our government partners, with a total design capacity of approximately 81,500 beds in 19 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 re-entry, 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 reduce recidivism and to prepare offenders for their successful re-entry 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](http://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.

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.

**Table of Contents**

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 2014 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 March 31, 2015, we had \$2.7 billion in property and equipment, including \$118.2 million in long-lived assets, excluding equipment, at five idled 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 five idled facilities as of March 31, 2015 were as follows (in thousands):

Prairie Correctional Facility	\$ 18,459
Huerfano County Correctional Center	18,844
Diamondback Correctional Facility	44,113
Otter Creek Correctional Center	23,881
Marion Adjustment Center	12,868
	\$ 118,165

For the three months ended March 31, 2015 and 2014, the five idled facilities incurred combined operating expenses of approximately \$1.8 million and \$1.9 million, respectively. The 2014 amount excludes expenses incurred in connection with the activation of the Diamondback Correctional Facility which began in the third quarter of 2013 and continued until near the end of the second quarter of 2014, as further described hereafter.

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 five currently idled facilities for impairment when we were notified by the respective customers that they would no longer be utilizing such facility.

---

**Table of Contents**

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 or in excess of 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 these assets 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.

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 has 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.

*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 U.S. Immigration and Customs Enforcement, or ICE, to provide residential space and services at our newly activated 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

---

**Table of Contents**

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, while a change in revenue allocation could lead to timing differences in the period in which revenue is recognized, total revenue recognized over the life of the IGSA will not change.

*Self-funded insurance reserves.* As of March 31, 2015, we had \$32.8 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 March 31, 2015, we had \$4.6 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:

	<b>Effective Date</b>	<b>Owned and Managed</b>	<b>Managed Only</b>	<b>Leased</b>	<b>Total</b>
<b>Facilities as of December 31, 2013</b>		49	16	4	69
Termination of the management contracts for the Bay, Graceville and Moore Haven Correctional Facilities	January 2014		(3)		(3)
Termination of the contract at the North Georgia Detention Center	February 2014		(1)		(1)
Termination of the management contract for the Idaho Correctional Center	July 2014			(1)	(1)
Sale of the Houston Educational Facility	November 2014			(1)	(1)
Activation of the South Texas Family Residential Center	October 2014	1			1
<b>Facilities as of December 31, 2014</b>		49	12	3	64
Impairment of non-core assets	January 2015		(2)		(2)
<b>Facilities as of March 31, 2015</b>		<b>47</b>	<b>12</b>	<b>3</b>	<b>62</b>

**Three Months Ended March 31, 2015 Compared to the Three Months Ended March 31, 2014**

Net income was \$57.3 million, or \$0.49 per diluted share, for the three months ended March 31, 2015, compared with net income of \$51.7 million, or \$0.44 per diluted share, for the three months ended March 31, 2014. Net income was favorably impacted during the first quarter of 2015 most notably by the activation of the South Texas Family Residential Center in the fourth quarter of 2014, as further described hereafter.

***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



**Table of Contents**

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 months ended March 31, 2015 and 2014:

	<b>For the Three Months Ended March 31,</b>	
	<b>2015</b>	2014
Revenue per compensated man-day	<b>\$ 70.16</b>	\$ 61.82
Operating expenses per compensated man-day:		
Fixed expense	<b>35.67</b>	33.07
Variable expense	<b>13.52</b>	11.03
<b>Total</b>	<b>49.19</b>	44.10
Operating income per compensated man-day	<b>\$ 20.97</b>	\$ 17.72
Operating margin	<b>29.9%</b>	28.7%
Average compensated occupancy	<b>84.1%</b>	84.3%
Average available beds	<b>78,535</b>	85,001
Average compensated population	<b>66,029</b>	71,698

The calculations of expenses per compensated man-day exclude expenses incurred during the first quarter of 2014 for start-up efforts associated with the Diamondback facility because of the distorted impact they have on the statistics. The Diamondback expenses were incurred in connection with the activation of the facility in anticipation of a new contract. As further described hereafter, in April 2014, we made the decision to once again idle the facility in the absence of a definitive contract. The deactivation was completed near the end of the second quarter of 2014.

*Revenue*

Total revenue consists of revenue we generate in the operation and management of correctional and detention 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 months ended March 31, 2015 and 2014 (in millions):

	For the Three Months Ended March 31,			
	<b>2015</b>	2014	\$ Change	% Change
Management revenue:				
Federal	<b>\$ 203.2</b>	\$ 174.5	\$ 28.7	16.4%
State	<b>184.6</b>	193.9	(9.3)	(4.8%)
Local	<b>16.2</b>	16.6	(0.4)	(2.4%)

Edgar Filing: CORRECTIONS CORP OF AMERICA - Form 10-Q

Other	<b>12.9</b>	13.9	(1.0)	(7.2%)
Total management revenue	<b>416.9</b>	398.9	18.0	4.5%
Rental and other revenue	<b>9.1</b>	5.3	3.8	71.7%
Total revenue	<b>\$ 426.0</b>	\$ 404.2	\$ 21.8	5.4%

31

**Table of Contents**

The \$18.0 million, or 4.5%, increase in revenue associated with the operation and management of correctional and detention facilities consisted of an increase in revenue of approximately \$49.5 million resulting from an increase of 13.5% in average revenue per compensated man-day, partially offset by a decrease in revenue of approximately \$31.5 million caused by a decrease in the average daily compensated population from 2014 to 2015. Most notably, the increase in average revenue per compensated man-day was a result of the activation of the South Texas Family Residential Center in the fourth quarter of 2014, 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 2014 to 2015.

Average daily compensated population decreased 5,669, or 7.9%, from 71,698 during the three months ended March 31, 2014 to 66,029 during the three months ended March 31, 2015. The decline in average compensated population primarily resulted from the expiration of our contract at the Idaho Correctional Center after the state of Idaho assumed management of the facility effective July 1, 2014. In addition, the decline in average compensated population resulted from the expiration of our contracts at the Bay Correctional Facility, Graceville Correctional Facility, and Moore Haven Correctional Facility, collectively referred to herein as the Three Florida Facilities, after the Florida Department of Management Services ( DMS ) awarded the management of these contracts to another operator effective January 31, 2014. Combined, these four facilities generated operating losses, net of depreciation and amortization, of \$1.4 million for the three months ended March 31, 2014. A decline in federal populations at certain of our facilities, partially offset by an increase in population at our Red Rock Correctional Center, as further described hereafter, also contributed to the decrease in average compensated population from 2014 to 2015.

Business from our federal customers, including primarily the Federal Bureau of Prisons, or BOP, the United States Marshals Service, or USMS, and ICE, continues to be a significant component of our business. Our federal customers generated approximately 49% and 44% of our total management revenue for the three months ended March 31, 2015 and 2014, respectively, increasing \$28.7 million, or 16.4%. The increase in federal revenues primarily resulted from the activation of the South Texas Family Residential Center in the fourth quarter of 2014, as further described hereafter, and per diem increases at several of our other facilities, partially offset by a decline in federal populations at several facilities.

State revenues from facilities that we manage decreased 4.8% from the first quarter of 2014 to the first quarter of 2015 primarily as a result of the expiration of our contracts at the Idaho Correctional Center effective July 1, 2014 and at the Three Florida Facilities effective January 31, 2014, partially offset by an increase in revenue at our Red Rock Correctional Center in Arizona, as further described hereafter.

Several of our state partners are projecting modest increases in tax revenues and improvements in their budgets which has resulted in our ability to secure recent per diem increases at certain facilities. However, all of our state partners have balanced budget requirements, which may force them to further reduce their expenses if their tax revenues, which typically lag the overall economy, do not meet their expectations. Actions to manage their expenses could include reductions in inmate populations.

We believe the long-term growth opportunities of our business remain very attractive as governments consider efficiency, savings, and offender programming opportunities we can

**Table of Contents**

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.

Rental and other revenue increased as a result of a contract adjustment by one of our government partners previously disclosed in the fourth quarter of 2013. The contract adjustment resulted in an accrual of \$13.0 million of revenue and an equal accrual of operating expenses during the fourth quarter of 2013, which were revised to \$9.0 million during the first quarter of 2014, resulting in the reduction of both revenue and operating expenses by \$4.0 million in 2014.

*Operating Expenses*

Operating expenses totaled \$300.7 million and \$287.4 million for the three months ended March 31, 2015 and 2014, respectively. Operating expenses consist of those expenses incurred in the operation and management of correctional and detention 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 and detention facilities increased \$6.2 million, or 2.2% during the first quarter of 2015 compared with the same period in 2014. Similar to our increase in revenues, operating expenses increased most notably as a result of the activation of our South Texas Family Residential Center in the fourth quarter of 2014, as further described hereafter, partially offset by the expiration of our contracts at the Idaho Correctional Center effective July 1, 2014 and at the Three Florida Facilities effective January 31, 2014.

Fixed expenses per compensated man-day increased to \$35.67 during the three months ended March 31, 2015 from \$33.07 during the three months ended March 31, 2014 primarily as a result of an increase in salaries and benefits per compensated man-day of \$2.03. The increase in salaries and benefits per compensated man-day resulted primarily from a higher average rate at our newly activated South Texas Family Residential Center. The increase in salaries and benefits per compensated man-day was also a result of these expenses being leveraged over smaller offender populations across our portfolio and due to wage adjustments implemented during 2014. 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 62% of our total operating expenses during 2014 and 60% for the first three months of 2015.

Variable expenses increased \$2.49 per compensated man-day during the three months ended March 31, 2015 from the three months ended March 31, 2014 primarily due to expenses associated with our newly activated South Texas Family Residential Center, and due to an increase in inmate medical and litigation costs.

Operating expenses also increased from 2014 to 2015 as a result of the contract adjustment by one of our government partners which reduced both revenue and operating expenses by \$4.0 million in the first quarter of 2014, as previously described. In addition, operating expenses in the first quarter of 2015 included a \$3.0 million bad debt charge associated with a facility we no longer manage.

**Table of Contents**

*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.

During December 2014, the BOP announced that it elected not to renew its contract with us at our owned and operated 2,016-bed Northeast Ohio Correctional Center. The current contract with the BOP at this facility is scheduled to expire on May 31, 2015. We currently expect to continue to house USMS detainees at this facility pursuant to a separate contract that expires December 31, 2016, while we continue to market the space that will become available.

In early April 2015, we provided notice to the state of Louisiana that we will cease management of the 1,538-bed Winn Correctional Center within 180 days, in accordance with the notice provisions of the contract. We generated operating income, net of depreciation and amortization, at this facility of \$0.2 million for the three months ended March 31, 2014, and incurred an operating loss of \$1.5 million for the three months ended March 31, 2015. In anticipation of terminating the contract at this facility, we also recorded an asset impairment of \$1.0 million during the first quarter of 2015 for the write-off of goodwill associated with the Winn facility.

Based on information available at this filing, notwithstanding the contracts at facilities described above, we believe we will renew all other material contracts that have expired or are scheduled to expire within the next twelve months. We believe our renewal rate on existing contracts remains high as a result of a variety of reasons including, but not limited to, the constrained supply of available beds within the U.S. correctional system, our ownership of the majority of the beds we operate, and the quality of our operations.

The operation of the facilities we own carries a higher degree of risk associated with a facility contract than the operation of the facilities we manage but do not own because we incur significant capital expenditures to construct or acquire facilities we own. Additionally, correctional and detention facilities have limited or no alternative use. Therefore, if a contract is terminated on a facility we own, we continue to incur certain operating expenses, such as real estate taxes, utilities, and insurance, which we would not incur if a management contract were terminated for a managed-only facility. As a result, revenue per compensated man-day is typically higher for facilities we own and manage than for managed-only facilities. Because we incur higher expenses, such as repairs and maintenance, real estate taxes, and insurance, on the facilities we own and manage, our cost structure for facilities we own and manage is also higher than the cost structure for the managed-only facilities. Accordingly, the following tables display the revenue and expenses per compensated man-day for the facilities placed into service that we own and manage and for the facilities we manage but do not own, which we believe is useful to our financial statement users:

**Table of Contents**

	For the Three Months Ended March 31,	
	2015	2014
<b>Owned and Managed Facilities:</b>		
Revenue per compensated man-day	\$ 78.36	\$ 69.08
Operating expenses per compensated man-day:		
Fixed expense	38.23	35.31
Variable expense	14.37	11.33
Total	52.60	46.64
Operating income per compensated man-day	\$ 25.76	\$ 22.44
Operating margin	32.9%	32.5%
Average compensated occupancy	81.8%	81.3%
Average available beds	63,099	66,222
Average compensated population	51,611	53,866

	For the Three Months Ended March 31,	
	2015	2014
<b>Managed-Only Facilities:</b>		
Revenue per compensated man-day	\$ 40.80	\$ 39.88
Operating expenses per compensated man-day:		
Fixed expense	26.51	26.30
Variable expense	10.49	10.11
Total	37.00	36.41
Operating income per compensated man-day	\$ 3.80	\$ 3.47
Operating margin	9.3%	8.7%
Average compensated occupancy	93.4%	95.0%
Average available beds	15,436	18,779
Average compensated population	14,418	17,832

*Owned and Managed Facilities*

Facility net operating income, or the operating income or loss from operations before interest, taxes, asset impairments, depreciation and amortization, at our owned and managed facilities increased by \$12.4 million, from



\$107.3 million during the three months ended March 31, 2014 to \$119.7 million during the three months ended March 31, 2015, an increase of 11.6%. Facility net operating income at our owned and managed facilities in the first quarter of 2015 was favorably impacted by the activation of the South Texas Family Residential Center, as further described hereafter.

In September 2014, we announced that we agreed under an expansion of an existing inter-governmental service agreement, or IGSA, between the City of Eloy, Arizona, and ICE to

---

**Table of Contents**

house up to 2,400 individuals at the South Texas Family Residential Center, a facility we lease in Dilley, Texas. The expanded agreement gives ICE additional capacity to accommodate the influx of Central American female adults with children arriving illegally on the Southwest border while they await the outcome of immigration hearings. As part of the agreement, we are responsible for providing space and residential services in an open and safe environment which offers residents indoor and outdoor recreational activities, study period, counseling, group interaction, and access to religious and legal services. In addition, we provide educational programs through a third party and food services through the lessor. Medical services are provided to residents by ICE Health Service Corps, a division of ICE. The new services provided under the amended IGSA commenced in the fourth quarter of 2014, have a term of up to four years, and can be extended by bi-lateral modifications.

We lease the South Texas Family Residential Center and the site upon which it is being constructed from a third-party lessor. Our lease agreement with the lessor is over a period co-terminus with the aforementioned amended IGSA with ICE. ICE began housing the first residents at the facility in the fourth quarter of 2014, and the site is expected to be ready for full capacity during the second quarter of 2015. The agreement provides for a fixed monthly payment in accordance with a graduated schedule. In accordance with the multiple-element arrangement guidance, a portion of the fixed monthly payments was recognized as lease and service revenue in the first quarter of 2015 and will continue to increase as additional beds are brought online, up to the point the facility is ready for full occupancy at 2,400 beds. In the first quarter of 2015, we recognized \$36.0 million in revenue associated with the amended IGSA. The expanded agreement with ICE had a favorable impact on the revenue and net operating income of our owned and managed facilities during the first quarter of 2015 and is expected to continue to have a favorable impact on our financial results.

In January 2015, a class action lawsuit was filed in federal district court for the District of Columbia against the Secretary of the Department of Homeland Security, or DHS, and certain ICE officials. The complaint sought to certify a class of plaintiffs, consisting of Central American mothers and children who (i) have been or will be detained in ICE family detention facilities since June 2014, (ii) have been or will be determined to have a credible fear of persecution in their home country under federal asylum laws and (iii) are eligible for release on bond pursuant to certain federal statutes but have been or will be denied such release after being subject to an ICE custody determination that took deterrence of mass migration into account. In February 2015, the court certified the class and granted the plaintiffs motion for a preliminary injunction, enjoining DHS from detaining class members for the purpose of deterring future immigration to the United States and from considering deterrence of such immigration as a factor in such custody determinations until a final determination has been reached on the merits of the action. On March 20, 2015, DHS moved the court to reconsider and vacate its order, arguing that the relief the court granted exceeded that which was appropriate in the case. Plaintiffs responded to the DHS motion, and DHS has until May 8, 2015, to submit a response to that filing. As of March 31, 2015, approximately 380 women and children resided at the South Texas Family Residential Center. Any adverse decision with regard to this contract could materially affect our financial condition and results of operations.

In September 2012, we announced that we were awarded a new management contract from the Arizona Department of Corrections to house up to 1,000 medium-security inmates at our 1,596-bed Red Rock Correctional Center in Arizona. The new management contract, which commenced in January 2014, contains an initial term of ten years, with two five-year renewal

**Table of Contents**

options upon mutual agreement and provides an occupancy guarantee of 90% of the contracted beds, was implemented in two phases. The government partner included the occupancy guarantee in its Request For Proposal, or RFP, in order to guarantee its access to the beds. We received approximately 500 inmates from Arizona during the first quarter of 2014 and received approximately 500 additional inmates during the first quarter of 2015. Revenue and net operating income increased by \$2.9 million and \$1.6 million, respectively, from the first quarter of 2014 to the first quarter of 2015 as a result of this additional population.

In May 2011, in response to a lawsuit brought by inmates against the state of California, the U.S. Supreme Court upheld a lower court ruling issued by a three judge panel requiring California to reduce its inmate population to 137.5% of its capacity. In an effort to meet the Federal court ruling, the state of California enacted legislation that shifted the responsibilities for housing certain lower level inmates from state government to local jurisdictions. This realignment plan commenced on October 1, 2011 and, along with other actions to reduce inmate populations, has resulted in a reduction in state inmate populations of approximately 32,000 as of March 31, 2015. As of March 31, 2015, the adult inmate population held in state of California institutions met the Federal court order at approximately 135% of capacity, or approximately 112,000 inmates, which did not include the California inmates held in our out-of-state facilities.

As of March 31, 2015 and 2014, we housed approximately 8,600 and 8,700 inmates, respectively, from the state of California as a partial solution to the State's overcrowding. We believe the decrease in inmate populations within the state's correctional system has recently resulted in a decrease in the number of inmates we house for the state. As of April 30, 2015, we housed approximately 8,100 inmates from the state of California. A continued reduction in the State's inmate population will likely result in a further reduction in the inmate populations we house for the state of California. While we expect a reduction in the out-of-state program, we believe our contract will continue beyond the next state fiscal year as we have been a successful part of the State's efforts to address overcrowding and to come into compliance with court mandates. Approximately 14% of our total revenue for both the first quarter of 2015 and 2014 was generated from the California Department of Corrections and Rehabilitation, or CDCR, including revenue generated at our California City facility under a lease agreement that commenced December 1, 2013. A significant reduction or elimination of the use of our out-of-state solutions by the state of California would have a significant adverse impact on our financial position, results of operations, and cash flows.

During the third quarter of 2013, we began hiring staff at the Diamondback Correctional Facility in order to reactivate the facility for future operations. Our decision to activate the facility was made as a result of potential need for additional beds by certain state customers. In January 2014, the state of Oklahoma issued an RFP for bed capacity in the state of Oklahoma and anticipated that an award announcement would be made in the second quarter of 2014. When it became evident the contract would not be awarded and commence in the near-term, we made the decision to re-idle the facility. The de-activation was completed near the end of the second quarter of 2014. In the preceding table, the calculations of expenses per man-day exclude expenses incurred during the first quarter of 2014 for the Diamondback facility because of the distorted impact they have on the statistics.

---

**Table of Contents***Managed-Only Facilities*

Total revenue at our managed-only facilities decreased \$11.1 million from \$64.0 million during the first quarter of 2014 to \$52.9 million during the first quarter of 2015. The decrease in revenues at our managed-only facilities was largely the result of the expiration of our contracts at the Idaho Correctional Center effective July 1, 2014 and at the Three Florida Facilities effective January 31, 2014. Revenue per compensated man-day increased to \$40.80 from \$39.88, or 2.3%, for the first quarter of 2015 compared with the same period in the prior year. Operating expenses per compensated man-day increased to \$37.00 during the three months ended March 31, 2015 from \$36.41 during the same period in the prior year. Facility net operating income at our managed-only facilities decreased \$0.6 million, from \$5.6 million during the three months ended March 31, 2014 to \$4.9 million during the three months ended March 31, 2015.

During the third quarter of 2013, the state of Idaho reported that they expected to solicit bids for the management of the Idaho Correctional Center upon the expiration of our contract in June 2014. During the third quarter of 2013, we decided not to submit a bid for the continued management of this facility. The state announced in early 2014 that it would assume management of the facility effective July 1, 2014. The transition of our operations to the state of Idaho was completed successfully on July 1, 2014. This facility incurred a net operating loss of \$1.1 million during the three months ended March 31, 2014.

During the fourth quarter of 2013, the Florida DMS awarded to another operator contracts to manage the Three Florida Facilities which are owned by the state of Florida. We previously managed these facilities under contracts that expired on January 31, 2014. Accordingly, we transferred operations of these facilities to the new operator upon expiration of the contracts. These three facilities generated \$0.1 million of facility net operating income during the three months ended March 31, 2014.

We expect the managed-only business to remain competitive and we will only pursue opportunities for managed-only business where we are sufficiently compensated for the risk associated with this competitive business. Further, we may terminate existing contracts from time to time when we are unable to achieve per diem increases that offset increasing expenses and enable us to maintain safe, effective operations. In early April 2015, we provided notice to the state of Louisiana that we will cease management of the 1,538-bed Winn Correctional Center within 180 days, in accordance with the notice provisions of the contract. We generated net operating income at this facility of \$0.3 million for the three months ended March 31, 2014, and incurred a net operating loss of \$1.3 million for the three months ended March 31, 2015. In anticipation of terminating the contract at this facility, we also recorded an asset impairment of \$1.0 million during the first quarter of 2015 for the write-off of goodwill associated with the Winn facility. During the three months ended March 31, 2015 and 2014, managed-only facilities generated 4.0% and 4.9%, respectively, of our total facility net operating income.

*General and administrative expense*

For the three months ended March 31, 2015 and 2014, general and administrative expenses totaled \$26.9 million and \$25.4 million, respectively. General and administrative expenses consist primarily of corporate management salaries and benefits, professional fees and other

---

**Table of Contents**

administrative expenses. General and administrative expenses increased in the first quarter of 2015 when compared to the first quarter of 2014 primarily as a result of increased salaries, including incentive compensation.

***Depreciation and Amortization***

For the three months ended March 31, 2015 and 2014, depreciation and amortization expense totaled \$28.7 million and \$28.4 million, respectively. We expect our depreciation and amortization expense to increase during the balance of 2015 as we expect to fully activate the 2,400-bed South Texas Family Residential Center in the second quarter of 2015. Our lease agreement with the third-party lessor resulted in CCA being deemed the owner of the constructed assets for accounting purposes, in accordance with ASC 840-40-55, formerly Emerging Issues Task Force No. 97-10,

The Effect of Lessee Involvement in Asset Construction . Accordingly, our balance sheet reflects the estimated costs as incurred attributable to the building assets being constructed by the third-party lessor, which will be depreciated over the remainder of the four-year term of the lease beginning in the second quarter of 2015. We currently estimate the incremental depreciation expense associated with these assets to be approximately \$30.0 million for the remainder of the year.

***Interest expense, net***

Interest expense is reported net of interest income and capitalized interest for the three months ended March 31, 2015 and 2014. Gross interest expense, net of capitalized interest, was \$10.3 million and \$10.6 million, respectively, for the three months ended March 31, 2015 and 2014. Gross interest expense is based on outstanding borrowings under our revolving credit facility, our outstanding senior notes, as well as the amortization of loan costs and unused facility fees. We have benefited from relatively low interest rates on our revolving credit facility, which is largely based on the London Interbank Offered Rate (LIBOR). It is possible that LIBOR could increase in the future. The interest rate on our revolving credit facility was at LIBOR plus a margin of 1.75% during 2014 and the first quarter of 2015. We currently expect the interest rate on our revolving credit facility to remain at LIBOR plus a margin of 1.75% for the remainder of 2015.

We currently expect the outstanding balance on our revolving credit facility to increase during 2015 as we utilize additional borrowing capacity under it to complete the construction of two correctional facilities, further described under *Liquidity and Capital Resources* hereafter. We may issue additional debt securities in the future when we determine that market conditions and the opportunity to utilize the proceeds from the issuance of such securities are favorable. Our interest expense would increase in the future if we decide to pay down a portion of the revolving credit facility with proceeds from a long-term debt offering. Further, we also expect to incur approximately \$8.0 million of interest expense for the balance of the year associated with the South Texas Family Residential Center, in accordance with ASC 840-40-55.

Gross interest income was \$0.1 million and \$0.3 million for the three months ended March 31, 2015 and 2014, respectively. Gross interest income is earned on a direct financing lease, notes receivable, investments, and cash and cash equivalents. Capitalized interest was \$1.2 million and \$0.4 million during the three months ended March 31, 2015 and 2014, respectively. Capitalized interest was associated with various construction and expansion projects further described under *Liquidity and Capital Resources* hereafter.

---

**Table of Contents*****Income tax expense***

During both the three months ended March 31, 2015 and 2014, our financial statements reflected an income tax expense of \$1.4 million. Our effective tax rate was 2.4% and 2.6% during the three months ended March 31, 2015 and 2014, respectively. As a REIT, we are entitled to a deduction for dividends paid, resulting in a substantial reduction in the amount of federal income tax expense we recognize. Substantially all of our income tax expense is incurred based on the earnings generated by our TRSs. Our overall effective tax rate is estimated based on the current projection of taxable income primarily generated in our TRSs. Our 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 us, changes in other tax laws, changes in estimates related to uncertain tax positions, or changes in state apportionment factors, as well as changes in the valuation allowance applied to our deferred tax assets that are based primarily on the amount of state net operating losses and tax credits that could expire unused.

**LIQUIDITY AND CAPITAL RESOURCES**

Our principal capital requirements are for working capital, stockholder distributions, capital expenditures, and debt service payments. Capital requirements may also include cash expenditures associated with our outstanding commitments and contingencies, as further discussed in the notes to our financial statements and as further described in our 2014 Form 10-K. Additionally, we may incur capital expenditures to expand the design capacity of certain of our facilities (in order to retain management contracts) and to increase our inmate bed capacity for anticipated demand from current and future customers. We may acquire additional correctional facilities that we believe have favorable investment returns and increase value to our stockholders. We will also consider opportunities for growth, including, but not limited to, potential acquisitions of businesses within our line of business and those that provide complementary services, provided we believe such opportunities will broaden our market share and/or increase the services we can provide to our customers.

To qualify and be taxed 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. Our Board of Directors declared a quarterly dividend of \$0.54 for the first quarter of 2015 totaling \$63.6 million. The amount, timing and frequency of future distributions will be at the sole discretion of our Board of Directors and will be declared based upon various factors, many of which are beyond our control, including our financial condition and operating cash flows, the amount required to maintain qualification and taxation as a REIT and reduce any income and excise taxes that we otherwise would be required to pay, limitations on distributions in our existing and future debt instruments, our ability to utilize net operating losses, or NOLs, to offset, in whole or in part, our REIT distribution requirements, limitations on our ability to fund distributions using cash generated through our TRSs and other factors that our Board of Directors may deem relevant.

As of March 31, 2015, our liquidity was provided by cash on hand of \$74.0 million, and \$318.7 million available under our \$900.0 million revolving credit facility. During the three

---

**Table of Contents**

months ended March 31, 2015 and 2014, we generated \$117.2 million and \$66.6 million, respectively, in cash through operating activities, and as of March 31, 2015, we had net working capital of \$26.4 million. We currently expect to be able to meet our cash expenditure requirements for the next year utilizing these resources. None of our outstanding debt requires scheduled principal repayments and we have no debt maturities until December 2017.

Our cash flow is subject to the receipt of sufficient funding of and timely payment by contracting governmental entities. If the appropriate governmental agency does not receive sufficient appropriations to cover its contractual obligations, it may terminate our contract or delay or reduce payment to us. Delays in payment from our major customers or the termination of contracts from our major customers could have an adverse effect on our cash flow and financial condition.

***Debt***

As of March 31, 2015, we had \$350.0 million principal amount of unsecured notes outstanding with a fixed stated interest rate of 4.625%, \$325.0 million principal amount of unsecured notes outstanding with a fixed stated interest rate of 4.125%, and \$565.0 million outstanding under our revolving credit facility with a variable weighted average interest rate of 1.9%. At March 31, 2015, our total weighted average effective interest rate was 3.6% while our total weighted average maturity was 4.9 years. We also have the flexibility to issue debt or equity securities from time to time when we determine that market conditions and the opportunity to utilize the proceeds from the issuance of such securities are favorable.

On March 21, 2013, Standard & Poor's Ratings Services raised our corporate credit rating to BB+ from BB and also assigned a BB+ rating to our unsecured notes. Additionally, on April 5, 2013, Standard & Poor's Ratings Services assigned a rating of BBB to our \$900.0 million revolving credit facility. On February 7, 2012, Fitch Ratings assigned a rating of BBB- to our revolving credit facility and BB+ ratings to our unsecured debt and corporate credit. On January 31, 2013, Fitch Ratings affirmed these ratings in connection with our intention to convert to a REIT and reaffirmed them on January 26, 2015. On June 3, 2011, Moody's raised our senior unsecured debt rating to Ba1 from Ba2 and revised the outlook on our debt rating from positive to stable. On March 21, 2013, Moody's revised the rating outlook to positive from stable, and affirmed the senior unsecured rating at Ba1.

***Facility development and capital expenditures***

In order to retain federal inmate populations we currently manage in the 1,154-bed San Diego Correctional Facility, we are constructing the 1,492-bed Otay Mesa Detention Center at a site in San Diego. The existing San Diego Correctional Facility is subject to a ground lease with the County of San Diego. Under the provisions of the lease, the facility is divided into three different properties whereby, pursuant to an amendment to the ground lease executed in January 2010, ownership of the entire facility reverts to the County upon expiration of the lease on December 31, 2015. As of March 31, 2015, we have invested approximately \$136.1 million related to the new facility. We expect to complete construction of the Otay Mesa Detention Center during the third quarter of 2015. We currently estimate the total construction cost, inclusive of land and site development costs already incurred, will range from approximately \$153.0 million to \$157.0 million. We plan to offer this new facility to house the existing federal inmate populations at the San Diego Correctional Facility.

---

**Table of Contents**

In November 2013, we announced our decision to re-commence construction of a correctional facility in Trousdale County, Tennessee. We suspended construction of this facility in 2009 until we had greater clarity around the timing of a new contract. In October 2013, Trousdale County received notice from the Tennessee Department of Corrections of its intent to partner with the County to develop a new correctional facility to house state of Tennessee inmates. In April 2014, we entered into an agreement with Trousdale County whereby we agreed to finance, design, build 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. In July 2014, we received notice that Trousdale County and the state of Tennessee finalized the IGSA. 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, provided that during a twenty-six week ramp period the minimum payment is based on the greater of the number of inmates actually at the facility or 90% of the beds available pursuant to the ramp schedule. Total cost of the Trousdale Turner Correctional Center is estimated at approximately \$140.0 million to \$145.0 million, including \$87.4 million invested through March 31, 2015. The construction estimate includes capital investment funding to achieve Leadership in Energy and Environmental Design ( LEED ) certification and upgrade fixtures that reduce both water and energy consumption during the life of the facility. These investments support our belief in corporate responsibility to both the global environment and the local community in which facilities are located. Construction is expected to be completed in the fourth quarter of 2015, with the intake of inmate populations expected to begin in the first quarter of 2016.

In addition to these two new facility construction projects, we entered into an amended agreement with ICE whereby we agreed to construct additional administrative space for ICE at our Stewart Detention Center. We expect to incur approximately \$6.1 million, including \$2.9 million invested through March 31, 2015, in construction costs and expect to complete the project in the second quarter of 2015. In order for ICE to ensure its access to the beds and administrative space at the Stewart facility, the amended agreement also includes a fixed monthly payment for 1,600 beds which will take effect once the expansion is completed.

Additionally, we expect to incur approximately \$24.0 million, including \$15.0 million invested through March 31, 2015, in certain leasehold improvements and furniture, fixtures and equipment at the South Texas Family Residential Center, which amount is in addition to the lease payments under the lease agreement. We expect to complete these additions by the end of the second quarter of 2015 when the South Texas facility is expected to be ready for full occupancy.

The demand for capacity in the short-term has been affected by the budget challenges many of our government partners currently face. At the same time, these challenges impede our customers' ability to construct new prison beds of their own or update older facilities, which we believe could result in further need for private sector capacity solutions in the long-term. We intend to continue to pursue build-to-suit opportunities like our 2,552-bed Trousdale Turner Correctional Center under construction in Trousdale County, Tennessee, and alternative solutions like the 2,400-bed South Texas Family Residential Center whereby we identified a site and lessor to provide residential housing and administrative buildings for ICE. In the long-term, however, we would like to see continued and meaningful utilization of our available capacity and better visibility from our customers before we add any additional capacity on a speculative basis.



## **Table of Contents**

### **Operating Activities**

Our net cash provided by operating activities for the three months ended March 31, 2015 was \$117.2 million, compared with \$66.6 million for the same period in the prior year. Cash provided by operating activities represents the year to date net income plus depreciation and amortization, changes in various components of working capital, and various non-cash charges. The increase in cash provided by operating activities was primarily due to positive fluctuations in working capital balances during the three months ended March 31, 2015 when compared to the same period in the prior year, including the increase in deferred revenues associated with the South Texas Family Residential Center and routine timing differences in the collection of accounts receivables and in the payment of accounts payables, accrued salaries and wages, and other liabilities.

### **Investing Activities**

Our cash flow used in investing activities was \$91.6 million for the three months ended March 31, 2015 and was primarily attributable to capital expenditures during the three-month period of \$77.9 million, including expenditures for facility development and expansions of \$63.4 million primarily related to the aforementioned facility development projects, and \$14.6 million for facility maintenance and information technology capital expenditures. In addition, cash flow used in investing activities during the three months ended March 31, 2015 included \$16.3 million of capitalized lease payments related to the aforementioned South Texas Family Residential Center, reported in accordance with ASC 840-40-55, formerly Emerging Issues Task Force No. 97-10, The Effect of Lessee Involvement in Asset Construction. Our cash flow used in investing activities was \$26.7 million for the three months ended March 31, 2014 and was primarily attributable to capital expenditures during the three-month period of \$27.1 million, including expenditures for facility development and expansions of \$18.5 million, and \$8.6 million for facility maintenance and information technology capital expenditures.

### **Financing Activities**

Cash flow used in financing activities was \$26.0 million for the three months ended March 31, 2015 and was primarily attributable to dividend payments of \$61.1 million. Additionally, cash flow used in financing activities included \$9.3 million for the purchase and retirement of common stock that was issued in connection with equity-based compensation. These payments were partially offset by \$40.0 million of net proceeds under our revolving credit facility during the three months ended March 31, 2015.

Cash flow used in financing activities was \$65.1 million for the three months ended March 31, 2014 and was primarily attributable to dividend payments of \$56.3 million. Cash flow used in financing activities also included \$10.0 million of net principal repayments under our revolving credit facility during the three months ended March 31, 2014. Additionally, cash flow used in financing activities included \$2.8 million for the purchase and retirement of common stock that was issued in connection with equity-based compensation.

**Table of Contents****Funds from Operations**

Funds From Operations, or FFO, is a widely accepted supplemental non-GAAP measure utilized to evaluate the operating performance of real estate companies. The National Association of Real Estate Investment Trusts, or NAREIT, defines FFO as net income computed in accordance with generally accepted accounting principles, excluding gains or losses from sales of property and extraordinary items, plus depreciation and amortization of real estate and impairment of depreciable real estate and after adjustments for unconsolidated partnerships and joint ventures calculated to reflect funds from operations on the same basis.

We believe FFO is an important supplemental measure of our operating performance and believe it is frequently used by securities analysts, investors and other interested parties in the evaluation of REITs, many of which present FFO when reporting results.

We also present Normalized FFO as an additional supplemental measure as we believe it is more reflective of our core operating performance. We may make adjustments to FFO from time to time for certain other income and expenses that we consider non-recurring, infrequent or unusual, even though such items may require cash settlement, because such items do not reflect a necessary component of our ongoing operations. Normalized FFO excludes the effects of such items.

FFO and Normalized FFO are supplemental non-GAAP financial measures of real estate companies' operating performances, which do not represent cash generated from operating activities in accordance with GAAP and therefore should not be considered an alternative for net income or as a measure of liquidity. Our method of calculating FFO and Normalized FFO may be different from methods used by other REITs and, accordingly, may not be comparable to such other REITs.

Our reconciliation of net income to FFO and Normalized FFO for the three months ended March 31, 2015 and 2014 is as follows (in thousands):

	For the Three Months Ended March 31,	
	2015	2014
<b>FUNDS FROM OPERATIONS:</b>		
Net income	\$ 57,277	\$ 51,738
Depreciation of real estate assets	21,272	21,077
Funds From Operations	78,549	72,815
Goodwill and other impairments, net of taxes	955	
Normalized Funds From Operations	\$ 79,504	\$ 72,815

**Table of Contents****Contractual Obligations**

The following schedule summarizes our contractual cash obligations by the indicated period as of March 31, 2015 (in thousands):

	Payments Due By Year Ended December 31,						
	2015 (remainder)	2016	2017	2018	2019	Thereafter	Total
Long-term debt	\$	\$	\$ 565,000	\$	\$	\$ 675,000	\$ 1,240,000
Interest on senior notes	29,594	29,594	29,594	29,594	29,594	63,358	211,328
Contractual facility developments and other commitments	57,925						57,925
South Texas Family Residential Center	93,407	92,056	73,412	53,733			312,608
Operating leases	2,471	520	531	541	552	1,428	6,043
Total contractual cash obligations	\$ 183,397	\$ 122,170	\$ 668,537	\$ 83,868	\$ 30,146	\$ 739,786	\$ 1,827,904

The cash obligations in the table above do not include future cash obligations for variable interest expense associated with our outstanding revolving credit facility as projections would be based on future outstanding balances as well as future variable interest rates, and we are unable to make reliable estimates of either. Further, the cash obligations in the table above also do not include future cash obligations for uncertain tax positions as we are unable to make reliable estimates of the timing of such payments, if any, to the taxing authorities. The contractual facility developments included in the table above represent development projects for which we have already entered into a contract with a customer that obligates us to complete the development project. Certain of our other ongoing construction projects are not currently under contract and thus are not included as a contractual obligation above as we may generally suspend or terminate such projects without substantial penalty. With respect to the South Texas Family Residential Center, the cash obligations included in the table above reflect the full contractual obligations of various contracts, excluding contingent payments, for periods up to 48 months even though many of these agreements provide us with the ability to terminate if ICE terminates the amended IGSA.

We had \$16.3 million of letters of credit outstanding at March 31, 2015 primarily to support our requirement to repay fees and claims under our workers' compensation plan in the event we do not repay the fees and claims due in accordance with the terms of the plan. The letters of credit are renewable annually. We did not have any draws under any outstanding letters of credit during the three months ended March 31, 2015 or 2014.

**INFLATION**

Many of our management contracts include provisions for inflationary indexing, which mitigates an adverse impact of inflation on net income. However, a substantial increase in personnel costs, workers' compensation or food and medical expenses could have an adverse impact on our results of operations in the future to the extent that these expenses increase at a faster pace than the per diem or fixed rates we receive for our management services. We outsource our food service operations to a third party. The contract with our outsourced food service vendor contains certain protections against increases in food costs.



**Table of Contents**

**SEASONALITY AND QUARTERLY RESULTS**

Our business is somewhat subject to seasonal fluctuations. Because we are generally compensated for operating and managing facilities at an inmate per diem rate, our financial results are impacted by the number of calendar days in a fiscal quarter. Our fiscal year follows the calendar year and therefore, our daily profits for the third and fourth quarters include two more days than the first quarter (except in leap years) and one more day than the second quarter. Further, salaries and benefits represent the most significant component of operating expenses. Significant portions of the Company's unemployment taxes are recognized during the first quarter, when base wage rates reset for unemployment tax purposes. Finally, quarterly results are affected by government funding initiatives, the timing of the opening of new facilities, or the commencement of new management contracts and related start-up expenses which may mitigate or exacerbate the impact of other seasonal influences. Because of these seasonality factors, results for any quarter are not necessarily indicative of the results that may be achieved for the full fiscal year.

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.**

Our primary market risk exposure is to changes in U.S. interest rates. We are exposed to market risk related to our revolving credit facility because the interest rate on our revolving credit facility is subject to fluctuations in the market. If the interest rate for our outstanding indebtedness under the revolving credit facility was 100 basis points higher or lower during the three months ended March 31, 2015, our interest expense, net of amounts capitalized, would have been increased or decreased by \$1.4 million.

As of March 31, 2015, we had outstanding \$325.0 million of senior notes due 2020 with a fixed interest rate of 4.125% and \$350.0 million of senior notes due 2023 with a fixed interest rate of 4.625%. Because the interest rates with respect to these instruments are fixed, a hypothetical 100 basis point increase or decrease in market interest rates would not have a material impact on our financial statements.

We may, from time to time, invest our cash in a variety of short-term financial instruments. These instruments generally consist of highly liquid investments with original maturities at the date of purchase of three months or less. While these investments are subject to interest rate risk and will decline in value if market interest rates increase, a hypothetical 100 basis point increase or decrease in market interest rates would not materially affect the value of these investments.

**ITEM 4. CONTROLS AND PROCEDURES.**

An evaluation was performed under the supervision and with the participation of our senior management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act as of the end of the period covered by this quarterly report. Based on that evaluation, our officers, including our Chief Executive Officer and Chief Financial Officer, concluded that as of the end of the period covered by this quarterly report

**Table of Contents**

our disclosure controls and procedures are effective to ensure that information required to be disclosed in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms and information required to be disclosed in the reports we file or submit under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure. There have been no changes in our internal control over financial reporting that occurred during the period covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**PART II OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS.**

See the information reported in Note 8 to the financial statements included in Part I, which information is incorporated hereunder by this reference.

**ITEM 1A. RISK FACTORS.**

There have been no material changes in our Risk Factors as previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2014.

**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.**

None.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES.**

None.

**ITEM 4. MINE SAFETY DISCLOSURES**

None.

**ITEM 5. OTHER INFORMATION.**

None.

**Table of Contents****ITEM 6. EXHIBITS.**

Exhibit Number	Description of Exhibits
31.1*	Certification of the Company's Chief Executive Officer pursuant to Securities and Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of the Company's Chief Financial Officer pursuant to Securities and Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1**	Certification of the Company's Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2**	Certification of the Company's Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase
101.DEF*	XBRL Taxonomy Extension Definition Linkbase
101.LAB*	XBRL Taxonomy Extension Label Linkbase
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase

\* Filed herewith.

\*\* Furnished herewith.

**Table of Contents**

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**CORRECTIONS CORPORATION OF  
AMERICA**

Date: May 7, 2015

/s/ Damon T. Hininger  
Damon T. Hininger  
President and Chief Executive Officer

/s/ David M. Garfinkle  
David M. Garfinkle  
Executive Vice President, Chief Financial Officer,  
and Principal Accounting Officer