Advanced Emissions Solutions, Inc.
Form 10-Q
April 19, 2016

United States
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2015
or
¨TRANSITION REPORT PURSUANT TO 13 OR 15(d) OF THE EXCHANGE ACT OF 1934
For the transition period from to
Commission File Number: 000-54992

Advanced Emissions Solutions, Inc.
(Exact name of registrant as specified in its charter)

Delaware	27-5472457
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

9135 South Ridgeline Boulevard, Suite 200, Highlands Ranch CO,	000-54992
(Address of principal executive offices)	(Zip Code)

(720) 598-3500
(Registrant’s telephone number, including area code)
Not Applicable
(Former name, former address and former fiscal year, if changed since last report)

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 x
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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ¨ No x
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 the definitions of “large accelerated filer,” “accelerated filer,” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	o	Accelerated filer	x
Non-accelerated filer	o	Smaller reporting company	¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act. (Check one): Yes ¨ No x
Indicate the number of shares outstanding of each of the issuer’s classes of common stock, as of the latest practicable date.

Class	Outstanding at April 14, 2016
Common stock, par value $0.001 per share	22,011,494

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Part I. – FINANCIAL INFORMATION
Item 1. Consolidated Financial Statements
Advanced Emissions Solutions, Inc. and Subsidiaries
Condensed Consolidated Balance Sheets
(Unaudited)

(in thousands, except share data)	As of June 30, 2015	December 31, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	$10,413	$ 25,181
Receivables, net	9,218	16,594
Receivables, related parties, net	1,665	1,439
Restricted cash	2,527	2,527
Costs in excess of billings on uncompleted contracts	6,830	6,153
Prepaid expenses and other assets	2,709	2,535
Total current assets	33,362	54,429
Restricted cash, long-term	10,680	8,771
Property and equipment, net of accumulated depreciation of $6,612 and $5,924, respectively	4,076	4,808
Investment securities, restricted, long-term	336	336
Cost method investment	2,776	2,776
Equity method investments	20,238	19,584
Other assets	5,029	2,995
Total Assets	$76,497	$ 93,699
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities:		
Accounts payable	$10,227	$ 7,514
Accrued payroll and related liabilities	7,329	5,158
Current portion of notes payable, related parties	1,612	1,479
Billings in excess of costs on uncompleted contracts	16,038	22,518
Settlement and royalty indemnity obligation	4,268	3,749
Other current liabilities	8,540	6,739
Total current liabilities	48,014	47,157
Long-term portion of notes payable, related party	13,716	14,431
Settlement and royalty indemnification, long-term	18,282	20,273
Advance deposit, related party	5,028	6,524
Other long-term liabilities	6,053	6,011
Total Liabilities	91,093	94,396
Commitments and contingencies (Note 8)		
Stockholders' deficit:		
Preferred stock: par value of $.001 and no par value per share, respectively, 50,000,000 shares authorized, none outstanding	—	—
Common stock: par value of $.001 per share, 100,000,000 shares authorized, 21,969,795 and 21,853,263 shares issued, and 21,779,721 and 21,643,342 shares outstanding at June 30, 2015 and December 31, 2014, respectively	22	22
Additional paid-in capital	114,849	110,169
Accumulated deficit	(129,467)	(110,888)
Total stockholders' deficit	(14,596)	(697)
Total Liabilities and Stockholders' Deficit	$76,497	$ 93,699

See Notes to the Condensed Consolidated Financial Statements.

Advanced Emissions Solutions, Inc. and Subsidiaries
Condensed Consolidated Statements of Operations
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands, except per share data and percentages)	2015	2014	2015	2014
Revenues:				
Equipment sales	$14,236	$1,796	$35,351	$1,999
Consulting services	316	1,272	684	2,022
Chemicals and other	343	106	617	137
Total revenues	14,895	3,174	36,652	4,158
Operating expenses:				
Equipment sales cost of revenue, exclusive of depreciation and amortization	13,698	1,079	28,749	1,203
Consulting services cost of revenue, exclusive of depreciation and amortization	264	654	690	965
Chemical and other cost of revenue, exclusive of depreciation and amortization	41	20	278	37
Payroll and benefits	9,746	4,609	14,657	8,856
Rent and occupancy	601	558	1,232	1,118
Legal and professional fees	4,387	2,495	8,122	3,927
General and administrative	1,503	1,407	3,385	2,553
Research and development, net	1,860	316	3,110	595
Depreciation and amortization	573	456	1,104	894
Total operating expenses	32,673	11,594	61,327	20,148
Operating loss	(17,778)	(8,420)	(24,675)	(15,990)
Other income (expense):				
Earnings from equity method investments	4,860	9,791	5,174	16,416
Royalties, related party	2,299	849	4,493	1,981
Interest income	6	19	18	46
Interest expense	(1,794)	(1,219)	(3,569)	(2,012)
Other	23	1	87	10
Total other income (expense), net	5,394	9,441	6,203	16,441
Income (loss) before income tax expense	(12,384)	1,021	(18,472)	451
Income tax expense	63	29	107	42
Net income (loss)	$(12,447)	$992	$(18,579)	$409
Earnings (loss) per common share (Note 1):				
Basic	$(0.57)	$0.05	$(0.85)	$0.02
Diluted	$(0.57)	$0.04	$(0.85)	$0.02
Weighted-average number of common shares outstanding:				
Basic	21,715	21,477	21,728	21,487
Diluted	21,715	22,035	21,728	22,092

See Notes to the Condensed Consolidated Financial Statements.

Advanced Emissions Solutions, Inc. and Subsidiaries
Condensed Consolidated Statements of Cash Flows
(Unaudited)

	Six Months Ended June 30,	
(in thousands)	2015	2014
Cash flows from operating activities		
Net income (loss)	$(18,579)	$ 409
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization	1,104	894
Amortization of debt issuance costs	50	50
Impairment of property and equipment	46	71
Provision for bad debt expense and note receivable	511	—
Interest costs added to principal balance of notes payable	432	578
Share-based compensation expense	5,459	1,745
Earnings from equity method investments	(5,174)	(16,416)
Other non-cash items, net	177	40
Changes in operating assets and liabilities, net of effects of acquired businesses:		
Receivables	7,625	2,590
Related party receivables	(226)	20
Prepaid expenses and other assets	(460)	(1,482)
Costs incurred on uncompleted contracts	2,363	(31,681)
Restricted cash, long-term	(709)	(1,212)
Other long-term assets	231	102
Accounts payable	2,713	2,227
Accrued payroll and related liabilities	1,651	(683)
Other current liabilities	1,348	(1,211)
Billings on uncompleted contracts	(9,420)	27,703
Advance deposit, related party	(1,496)	(660)
Other long-term liabilities	19	125
Settlement and royalty indemnification obligation	(1,472)	(3,396)
Distributions from equity method investees, return on investment	19	1,259
Net cash used in operating activities	(13,788)	(18,928)

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(in thousands)	Six Months Ended June 30, 2015	2014
Cash flows from investing activities		
Purchase of investment securities, restricted	—	404
Increase in restricted cash	(1,200)	(343)
Acquisition of property and equipment	(380)	(881)
Advance on note receivable	(500)	—
Acquisition of business	(2,124)	—
Purchase of and contributions to equity method investees	(230)	(3,779)
Distributions from equity method investees in excess of cumulative earnings	4,730	16,321
Net cash provided by (used in) investing activities	296	11,722
Cash flows from financing activities		
Repayments on notes payable	(1,014)	—
Proceeds received upon exercise of stock options	—	243
Repurchase of shares to satisfy minimum tax withholdings	(262)	(4)
Net cash provided by (used in) financing activities	(1,276)	239
Increase (Decrease) in Cash and Cash Equivalents	(14,768)	(6,967)
Cash and Cash Equivalents, beginning of period	25,181	37,890
Cash and Cash Equivalents, end of period	$10,413	$30,923
Supplemental disclosures of cash information:		
Cash paid for interest	$2,993	$2,086
Cash paid for income taxes	146	95
Supplemental disclosure of non-cash investing and financing activities:		
Restricted stock award reclassification (equity to liability)	—	501
Issuance of common stock to settle liabilities	—	127
Acquisition of equity method investment through note payable	—	13,301

See Notes to the Condensed Consolidated Financial Statements.

Advanced Emissions Solutions, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements
(Unaudited)

Note 1 - Basis of Presentation

Nature of Operations

Advanced Emissions Solutions, Inc. (“ADES” or the "Company"), a Delaware corporation with its principal office located in Highlands Ranch, Colorado, is principally engaged in providing environmental and emissions control equipment, technologies and specialty chemicals to the coal-burning electric power generation industry. Although the Company has historically operated at a net loss, the Company generates substantial earnings and tax credits under Section 45 of the Internal Revenue Code ("IRC") from its equity investments in certain entities and royalty payment streams related to technologies that are licensed to Clean Coal Solutions, LLC, a Colorado limited liability company ("CCS"). Such technologies allow CCS to provide their customers with various solutions to enhance combustion and reduced emissions of nitrogen oxide ("NO_x") and mercury from coal burned to generate electrical power. The Company’s sales occur principally throughout the United States. See Note 11 for additional information regarding the Company's operating segments.

Basis of Presentation

The accompanying Condensed Consolidated Financial Statements of ADES are unaudited and have been prepared in conformity with U.S. generally accepted accounting principles (“U.S. GAAP”) and with Article 10 of Regulation S-X. In compliance with those instructions, certain information and footnote disclosures normally included in annual consolidated financial statements prepared in accordance with U.S. GAAP have been condensed or omitted.

The unaudited Condensed Consolidated Financial Statements of ADES in this quarterly report are presented on a consolidated basis comprising ADES and its direct and indirect, wholly-owned subsidiaries: ADA-ES, Inc. ("ADA"), a Colorado corporation, BCSI, LLC ("BCSI"), a Delaware limited liability company, Advanced Clean Energy Solutions, LLC ("ACES"), a Delaware limited liability company, ADEquity, LLC ("ADEquity"), a Delaware limited liability company, ADA Environmental Solutions, LLC ("ADA LLC"), a Colorado limited liability company, ADA Intellectual Property, LLC ("ADA IP"), a Colorado limited liability company, ADA-RCM6, LLC ("ADA-RCM6"), a Colorado limited liability company, ADA Analytics, LLC, a Delaware limited liability company and ADA Analytics Israel Ltd. (collectively with ADA Analytics, LLC, "ADA Analytics"), an Israel limited liability company. ADA LLC and ADA IP had no operations in 2015 and 2014. Results of operations and cash flows for the interim periods are not necessarily indicative of the results that may be expected for the entire year. All significant intercompany transactions and accounts were eliminated as of and for the three and six months ended June 30, 2015 and 2014.

On March 14, 2014, the Company effected a two-for-one stock split of the Company’s common stock, which was completed in the form of a common stock dividend and all amounts have been retroactively adjusted for the split.

In the opinion of management, these consolidated financial statements include all normal and recurring adjustments considered necessary for a fair presentation of the results of operations, financial position and cash flows for the interim periods presented. These Condensed Consolidated Financial Statements of ADES should be read in conjunction with the Company’s Annual Report on Form 10-K for the year ended December 31, 2014. Significant accounting policies disclosed therein have not changed.

Liquidity

During the three and six months ended June 30, 2015 the Company's working capital and cash balances continued to decline, due principally to continued losses. Such losses were driven primarily by poor operating performance related to Dry Sorbent Injection ("DSI") equipment, which is included within the Emissions Control - Manufacturing segment as of June 30, 2015, substantial and continuing expenditures required to fund the re-audit and restatement ("Restatement") of certain of our prior consolidated financial statements, and a significant reduction in the receipt of cash distributions from CCS. This deterioration of working capital directly necessitated the securing of the loan transaction described in Note 12 ("Credit Agreement"). The Company expects that pressure on working capital will continue until such time as all Restatement activities are completed, including resolution of the SEC inquiry and the conclusion of the private litigation, both of which are described in Note 8.

The Company's ability to generate sufficient cash flow required to meet ongoing operational needs and to meet obligations, including the repayment of the loan under the Credit Agreement, depends upon several factors, including executing on the Company's contracts and initiatives, receiving royalty payments from Clean Coal Solutions, LLC ("CCS") and distributions from CCS and Clean Coal Solutions Services, LLC ("CCSS"), and our ability to maintain a significant share of the market and increase operational efficiencies for emissions control equipment, chemicals and services. Increased distributions from CCS will likely be dependent upon the securing of additional tax equity investors for those CCS facilities that are currently not operating, or operating as retained Refined Coal ("RC") facilities. If we are unable to generate sufficient cash flow, we may be unable to meet our operational needs and/or repay our loan when due. Should this be the case, we will seek to refinance the loan or obtain alternative financing. If we are unable to refinance the loan or obtain alternative financing, our lenders would be entitled to take possession of the collateral securing the indebtedness, which includes substantially all of our assets, to the extent permitted by the Credit Agreement and applicable law.

Earnings (Loss) Per Share

The Company computes earnings (loss) per share in accordance with FASB ASC 260-10. Under this guidance, unvested restricted stock awards ("RSA's") that contain non-forfeitable rights to dividends or dividend equivalents are deemed to be participating securities and, therefore, are included in computing basic earnings per share pursuant to the two-class method. The two-class method determines earnings per share for each class of common stock and participating securities according to dividends or dividend equivalents and their respective participation rights in undistributed earnings (losses). The Company did not declare any cash dividends during the three-month or six-month periods ended June 30, 2015 or 2014.

Under the two-class method, net income (loss) for the period is allocated between common shareholders and the holders of the participating securities, in this case, the weighted-average number of unvested restricted stock awards outstanding during the period. The allocated, undistributed income (loss) for the period is then divided by the weighted-average number of common shares and participating securities outstanding during the period to arrive at basic earnings (loss) per common share or participating security for the period, respectively. Because the Company did not declare any dividends during the periods presented, and because the unvested RSA's possess substantially the same rights to undistributed earnings as common shares outstanding, there is no difference between the calculated basic earnings (loss) per share for common shares and participating securities. Accordingly, and pursuant to U.S. GAAP, the Company has elected not to separately present basic or diluted earnings (loss) per share attributable to participating securities on its Consolidated Statements of Operations.

Diluted earnings (loss) per share takes into consideration shares of common stock and unvested RSA's outstanding (computed under basic earnings (loss) per share) and potentially dilutive shares of common stock. Potentially dilutive shares consist of vested, in-the-money outstanding options, Stock Appreciation Rights ("SAR's") and contingent Performance Share Unit's ("PSU's") (collectively "Potential dilutive shares"). When there is a loss from continuing operations, all potentially dilutive shares become anti-dilutive and are thus excluded from the calculation of diluted loss per share.

Each PSU represents a contingent right to receive shares of the Company’s common stock, that may range from zero to two times the number of PSU's granted on the award date, should the Company meet certain performance measures over the requisite performance period. The number of potentially dilutive shares related to PSU's is based on the number of shares, if any, that would be issuable at the end of the respective reporting period, assuming that the end of the reporting period was the end of the contingency period applicable to such PSU's.

The following table sets forth the calculations of basic and diluted earnings per share:

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands, except per share amounts)	2015	2014	2015	2014
Net income (loss)	$(12,447)	$ 992	$(18,579)	$ 409
Less: Undistributed income (loss) allocated to participating securities	(130)	14	(215)	6
Income (loss) attributable to common stockholders	$(12,317)	$ 978	$(18,364)	$ 403
Basic weighted-average common shares outstanding (1)	21,715	21,477	21,728	21,487
Add: dilutive effect of equity instruments	—	558	—	605
Diluted weighted average shares outstanding	21,715	22,035	21,728	22,092
Earnings (loss) per share - basic	$(0.57)	$ 0.05	$(0.85)	$ 0.02
Earnings (loss) per share - diluted	$(0.57)	$ 0.04	$(0.85)	$ 0.02

(1) The number of shares and per share amounts have been retroactively restated to reflect the two-for-one stock split of the Company’s common stock, which was effected in the form of a common stock dividend distributed on March 14, 2014.

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The table below shows the number of shares that were excluded from the calculation of diluted loss per share because their inclusion would have been anti-dilutive to the calculation:

	Three Months Ended June 30,		Six Months Ended June 30,	
(share data in thousands)	2015	2014	2015	2014
Stock options	18	—	24	—
Restricted stock awards	161	—	181	—
Performance share units	200	—	195	—
Stock appreciation rights	2	—	6	—
Total shares excluded from diluted shares outstanding	381	—	406	—

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to makes estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. There have been no changes in the Company's critical accounting estimates from those that were disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2014. Actual results could differ from these estimates.

New Accounting Guidance

In January 2015, the FASB issued ASU No. 2015-01, Income Statement - Extraordinary and Unusual Items (Topic 225-20), Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items that simplifies income statement presentation by eliminating extraordinary items from U.S. GAAP. This guidance is to be applied either prospectively or retrospectively and is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2015. Early application is permitted provided the guidance is applied from the beginning of the annual year of adoption. The Company has adopted the guidance as of January 1, 2014 and the adoption of this standard did not have an impact on the Company's consolidated financial position or results of operations.

In February 2015, the FASB issued ASU No. 2015-02, Consolidation (Topic 810), Amendments to the Consolidation Analysis that meant to clarify the consolidation reporting guidance in U.S. GAAP. This guidance is to be applied using a retrospective method or a modified retrospective method, as outlined in the guidance, and is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2015. Early application is permitted. The Company is currently evaluating this guidance but does not believe the adoption of this standard will impact the Company's financial statements and disclosures.

In April 2015, the FASB issued ASU 2015-03, Interest – Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs, which requires an entity to present debt issuance costs related to a debt liability as a direct deduction from the debt liability rather than as an asset. ASU 2015-03 is effective retrospectively for fiscal years, and interim reporting periods within those years, beginning after December 15, 2015. Early adoption is permitted for financial statements that have not been previously issued. The adoption of this standard impacted the presentation of certain financial statement line items within the Company's consolidated balance sheets and related disclosures, but did not affect the Company's consolidated results of operations.

In September 2015, the FASB issued ASU 2015-16, Business Combinations (Topic 805): Simplifying the Accounting Measurement-Period Adjustments, which eliminates the requirement for an entity to retrospectively adjust the financial statements for measurement-period adjustments that occur in periods after a business combination is completed. ASU 2015-16 is effective prospectively for fiscal years, and interim reporting periods within those years, beginning after December 15, 2015. The adoption of this standard will not have an impact on the Company's financial position and results of operations.

In November 2015, the FASB issued ASU 2015-17, Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes, to simplify the presentation of deferred income taxes. The amendments in ASU 2015-17 require that deferred tax liabilities and assets be classified as non-current in a classified statement of financial position. The current requirement that deferred tax liabilities and assets of a tax-paying component of an entity be offset and presented as a single amount is not affected by the amendments in the update. ASU 2015-17 is effective for fiscal years beginning after December 15, 2016, and interim periods within those years, and may be applied either prospectively to all deferred tax liabilities and assets or retrospectively to all periods presented. The adoption of this standard will not have an impact on the Company's financial position.

In January 2016, the FASB issued ASU 2016-01, Financial Instruments - Overall: Recognition and Measurement of Financial Assets and Financial Liabilities. This new standard provides guidance on how entities measure certain equity investments and present changes in the fair value. This standard requires that entities measure certain equity investments that do not result in consolidation and are not accounted for under the equity method at fair value and recognize any changes in fair value in net income. ASU 2016-01 is effective for fiscal years beginning after December 31, 2017. The Company is currently evaluating the provisions of this guidance and assessing its impact on the Company's financial statements and disclosures.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), which requires lessees to recognize a right of use asset and related lease liability for those leases classified as operating leases at the commencement date and have lease terms of more than 12 months. This topic retains the distinction between finance leases and operating leases. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, and interim periods within those years, and must apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The Company is currently evaluating the provisions of this guidance and assessing its impact on the Company's financial statements and disclosures.

In March 2016, the FASB issued ASU 2016-06, Derivatives and Hedging (Topic 815), which requires that embedded derivatives be separated from the host contract and accounted for separately as derivatives if certain criteria are met, including the “clearly and closely related” criterion. The amendments in this Update clarify the requirements for assessing whether contingent call (put) options that can accelerate the payment of principal on debt instruments are clearly and closely related to their debt hosts. An entity performing the assessment under the amendments is required to assess the embedded call (put) options solely in accordance with the four-step decision sequence. The amendments apply to all entities that are issuers of or investors in debt instruments (or hybrid financial instruments that are determined to have a debt host) with embedded call (put) options. ASU 2016-06 is effective for fiscal years beginning after December 15, 2016, and interim periods within those years, and must apply a modified retrospective transition approach. Early adoption is permitted. The Company is currently evaluating the provisions of this guidance and assessing its impact on the Company's financial statements and disclosures.

In March 2016, the FASB issued ASU 2016-07, Investments - Equity Method and Joint Ventures (Topic 323), which simplifies the accounting for equity method investments by removing the requirement that an entity retroactively adopt the equity method of accounting if an investment qualifies for use of the equity method as a result of an increase in the level of ownership or degree of influence. The amendments require that the equity method investor add the cost of acquiring the additional interest in the investee to the current basis of the investor’s previously held interest and adopt the equity method of accounting as of the date the investment becomes qualified for equity method accounting. ASU 2016-07 is effective for fiscal years beginning after December 15, 2016, and interim periods within those years, and must apply a prospective adoption approach. Early adoption is permitted. The Company is currently evaluating the provisions of this guidance and assessing its impact on the Company's financial statements and disclosures.

In March 2016, the FASB issued ASU 2016-08, Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net), which clarify the implementation guidance on principal versus agent considerations. ASU 2016-08 is effective for effective for fiscal years, and interim reporting periods within those years, beginning after December 15, 2017. Early application is permitted for annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. The Company is currently evaluating the provisions of this guidance and assessing its impact on the Company's financial statements and disclosures.

In March 2016, the FASB issued ASU No. 2016-09, Compensation-Stock Compensation- Improvements to Employee Share-Based Payment Accounting (Topic 718), which involves several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. Under the new standard, income tax benefits and deficiencies are to be recognized as income tax expense or benefit in the income statement and the tax effects of exercised or vested awards should be treated as discrete items in the reporting period in which they occur. An entity should also recognize excess tax benefits regardless of whether the benefit reduces taxes payable in the current period. Excess tax benefits should be classified along with other income tax cash flows as an operating activity. In regards to forfeitures, the entity may make an entity-wide accounting policy election to either estimate the number of awards that are expected to vest or account for forfeitures when they occur. This ASU is effective for fiscal years beginning after December 15, 2016 including interim periods within that reporting period, however early adoption is permitted. The Company is currently evaluating the guidance to determine the Company's adoption method and the effect it will have on the Company's Consolidated Financial Statements.

Note 2 - Restructuring

The Company recorded restructuring charges during the three and six months ended June 30, 2015 in connection with a reduction in force, the departure of certain executive officers and management's further alignment of the business with strategic objectives. These charges related to severance arrangements with departing employees and executives and the termination of the operations of a foreign subsidiary that was involved in the development of certain data analytics and monitoring products (see Note 3), as well as non-cash charges related to the acceleration of vesting of certain stock awards. The Company incurred additional charges during the remainder of 2015 associated with the closing of BCSI's facilities and corresponding alignment of the business with strategic objectives.

The Company recorded restructuring charges during the three and six months ended June 30, 2014 primarily related to a reduction in force and management's alignment of the business with strategic objectives. These charges were related to severance agreements with departing employees, including non-cash charges related to the acceleration of vesting of certain stock awards.

A summary of the net pretax charges, incurred by segment, for each period is as follows:

		Pretax Charge					
(in thousands, except employee data)	Approximate Number of Employees	Refined Coal	Emission Control - ACI	Emissions Control - BCSI	Research & Development	All Other and Corporate	Total
Three Months Ended June 30, 2015							
Restructuring charges	41	$ —	$ 1,715	$ —	$ 86	$ 3,764	$ 5,565
Changes in estimates		—	—	—	(2)	—	(2)
Total pretax charge, net of reversals		$ —	$ 1,715	$ —	$ 84	$ 3,764	$ 5,563
Six Months Ended June 30, 2015							
Restructuring charges	45	$ —	$ 1,715	$ —	$ 86	$ 4,242	$ 6,043
Changes in estimates		—	(10)	—	(2)	—	(12)
Total pretax charge, net of reversals		$ —	$ 1,705	$ —	$ 84	$ 4,242	$ 6,031
Three Months Ended June 30, 2014							
Restructuring charges	18	$ —	$ 352	$ —	$ —	$ 14	$ 366
Total pretax charge, net of reversals		$ —	$ 352	$ —	$ —	$ 14	$ 366
Six Months Ended June 30, 2014							
Restructuring charges	18	$ —	$ 352	$ —	$ —	$ 14	$ 366
Total pretax charge, net of reversals		$ —	$ 352	$ —	$ —	$ 14	$ 366

The following table summarizes the Company’s utilization of restructuring accruals for the six months ended June 30, 2015:

(in thousands)	Employee Severance
Remaining accrual as of December 31, 2014	$ 1,690
Expense provision (1)	6,043
Cash payments and other (1)	(4,342)
Change in estimates	(12)
Remaining accrual as of June 30, 2015	$ 3,379

(1) Included within the Expense provision and Cash payments and other line items in the above table is equity based compensation of $3.1 million for the six months ended June 30, 2015, resulting from the accelerated vesting of modified equity-based compensation awards for certain terminated employees.

Restructuring accruals are included within the Accrued payroll and related liabilities line item in the Condensed Consolidated Balance Sheets. Restructuring expenses are included within the Payroll and benefits line item in the Condensed Consolidated Statements of Operations.

Note 3 - Acquisition

2015 Acquisition

In November 2014, the Company entered into an agreement with InSyst Ltd. and ClearView Monitoring Solutions Ltd. (collectively "ClearView"), both Israel based companies specializing in data analytics, to allow the Company the exclusive option to purchase certain assets of ClearView. The Company paid $0.2 million related to this option, which was included within the Prepaid expenses and other assets line item within the Condensed Consolidated Balance Sheets as of December 31, 2014. In January 2015, the Company notified ClearView that it had elected to exercise its exclusive option to purchase certain assets of ClearView.

In March 2015, the Company acquired the certain assets of ClearView for total cash payments of $2.4 million, which is inclusive of VAT tax of $0.4 million. The acquisition was accounted for under the acquisition method of accounting that requires the total purchase consideration to be allocated to the assets acquired and liabilities assumed based on estimates of fair value. Operating results related to the acquired assets were consolidated into the Company’s results of operations beginning March 6, 2015.

A summary of the purchase consideration and allocation of the purchase consideration is as follows:

(in thousands)	
Purchase consideration:	
Cash paid	$2,360
Fair value of liabilities assumed:	
Accrued liabilities	10
Contingent consideration	451
Total fair value of liabilities assumed	461
Total purchase consideration	$2,821
Allocation of purchase consideration	
Receivables	$360
Property and equipment and other	82
Intangibles - in process research and development	2,379
Total	$2,821

The transaction called for a series of contingent payments based upon the achievement of sales and sales targets. These contingent payments are classified as purchase consideration. As part of the purchase price, the Company recorded a $0.5

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million liability for the contingent consideration based upon the net present value of the Company's estimate of the future payments.

During August 2015, as part of a broader strategic restructuring of the Company's business to simplify its operating structure in a manner that creates increased customer focus, better supports sales and product delivery and also aligns the Company’s cost structure as the emissions control market shifts towards compliance solutions for the Federal Mercury and Air Toxics Standards ("MATS"), the Company’s management approved an action to wind down operations of ADA Analytics. As a result of these actions, the Company fully impaired the carrying value of the assets, thereby recognizing net impairment expense in the amount of $1.9 million during the third quarter of 2015.

Note 4 - Equity Method Investments

Clean Coal Solutions, LLC

The Company's ownership interest in CCS was 42.5% as of June 30, 2015 and December 31, 2014. CCS supplies technology equipment, and technical services to cyclone-fired, pulverized coal and other boiler users, but CCS's primary purpose is to put into operation facilities that produce Refined Coal ("RC") that qualifies for tax credits available under Section 45 of the IRC ("Section 45 tax credits"). CCS has been determined to be a variable interest entity ("VIE"); however, the Company does not have the power to direct the activities that most significantly impact the VIE’s economic performance and has therefore accounted for the investment under the equity method of accounting. The Company determined the partners of CCS with voting rights had identical voting interests, equity control interests and board control interests, and therefore, concluded that the power to direct the activities that most significantly impact the VIE’s economic performance were shared.

As shown in the tables below, the Company’s carrying value in CCS has been reduced to zero in all periods presented, as cumulative cash distributions from CCS have exceeded the Company's pro-rata share of cumulative earnings in CCS. If CCS subsequently reports net income, the Company will not record its pro-rata share of such net income until cumulative share of pro-rata income equals or exceeds the amount of its cumulative income recognized due to cash being distributed. Until such time, the Company will only report income from CCS to the extent of cash distributions. As such, equity income or loss reported on our income statement may differ from a mathematical calculation of net income or loss attributable to our equity interest based upon the factor of our equity interest and the net income or loss attributable to equity owners as shown on CCS’s income statement. Likewise, distributions from equity method investees are reported on our Consolidated Statements of Cash Flows as “return on investment” within Operating cash flows until such time as the carrying value in an equity method investee company is reduced to zero; thereafter, such distributions are reported as “distributions in excess of cumulative earnings” within Investing cash flows.

The following tables summarize the results of operations of CCS for the three and six months ended June 30, 2015 and 2014, respectively:

	Three Months Ended June 30,	
(in thousands)	2015	201
Gross profit	$24,905	$2
Operating expenses	7,147	4,9
Income from operations	17,758	15,
Other expenses	470	(49

Class B preferred return	(1,632	Fixed expenses per compensated man-day increased to $39.88 during the three months ended March 31, 2016 from $35.67 during the three months ended March 31, 2015. Fixed expenses per compensated man-day for the three months ended March 31, 2016 include depreciation

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expense of $10.6 million and interest expense of $2.9 million in order to more properly reflect the cash flows associated with the lease at the South Texas Family Residential Center. In total, fixed expenses at the now fully constructed 2,400-bed South Texas Family Residential Center contributed to an increase of $1.77 per compensated man-day for the three months ended March 31, 2016.

Fixed expenses per compensated man-day increased from 2015 to 2016 due primarily to an increase in salaries and benefits per compensated man-day. The increase in salaries and benefits per compensated man-day was partially a result of these expenses being leveraged over smaller offender populations at certain facilities and due to wage adjustments implemented during 2015. The increase in salaries and benefits per compensated man-day was also due to more favorable claims experience in our employee self-insured medical plan in the prior year. As the economy has improved, we have experienced wage pressures in certain markets across the country. We continually monitor compensation levels very closely along with overall economic conditions and will set wage levels necessary to help ensure the long-term success of our business. Salaries and benefits represent the most significant component of our operating expenses, representing approximately 59% of our total operating expenses during 2015 and 60% for the first three months of 2016.

Variable expenses increased $1.90 per compensated man-day during the three months ended March 31, 2016 from the three months ended March 31, 2015 primarily due to expenses associated with the now fully activated South Texas Family Residential Center, and due to expenses incurred during the ramp-up of operations at our Trousdale Turner Correctional Center.

Operating expenses in the first quarter of 2015 included a $3.0 million bad debt charge associated with a facility we no longer manage.

Facility Management Contracts

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

Our contract with the New Mexico Department of Corrections, or NMDOC, at the New Mexico Women s Correctional Facility is currently scheduled to expire in June 2016. In March 2016, the NMDOC issued a Request For Proposal, or RFP, for up to, but not limited to, an 800-bed facility to house minimum, medium, and maximum security-level inmates. We submitted a proposal for our New Mexico Women s Correctional Facility in response to the RFP. We can provide no assurance that we will either renew the existing contract to house female inmate populations or enter into a new contract pursuant to the RFP. The net carrying value of the New Mexico Women s Correctional Facility was $18.4 million as of March 31, 2016.

Our contract with the District of Columbia, or District, at the D.C. Correctional Treatment Facility is currently scheduled to expire in the first quarter of 2017. We have been provided

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notice that the District does not plan to renew the contract. As a result of low occupancy, we incurred a facility net operating loss at the D.C. Correctional Treatment Facility of $0.4 million and $0.2 million for the three months ended March 31, 2016 and 2015, respectively. Our investment in the direct financing lease with the District also expires in the first quarter of 2017. Upon expiration of the lease in 2017, ownership of the facility automatically reverts to the District.

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:

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	For the Three Months Ended March 31, 2016	2015
Owned and Managed Facilities:		
Revenue per compensated man-day	**$ 83.73**	$ 78.36
Operating expenses per compensated man-day:		
Fixed expense	**43.14**	38.23
Variable expense	**16.52**	14.37
Total	**59.66**	52.60
Operating income per compensated man-day	**$ 24.07**	$ 25.76
Operating margin	**28.7%**	32.9%
Average compensated occupancy	**71.5%**	81.8%
Average available beds	**71,296**	63,099
Average compensated population	**51,004**	51,611

	For the Three Months Ended March 31, 2016	2015
Managed-Only Facilities:		
Revenue per compensated man-day	**$ 42.19**	$ 40.80
Operating expenses per compensated man-day:		
Fixed expense	**27.09**	26.51
Variable expense	**11.09**	10.49
Total	**38.18**	37.00
Operating income per compensated man-day	**$ 4.01**	$ 3.80
Operating margin	**9.5%**	9.3%
Average compensated occupancy	**93.4%**	93.4%
Average available beds	**13,898**	15,436
Average compensated population	**12,981**	14,418

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 \$5.5 million, from \$119.7 million during the three months ended March 31, 2015 to \$125.2 million during the three months ended March 31, 2016, an increase of 4.6%. Facility net operating income at our owned and managed facilities in the first quarter of 2016 was favorably impacted by the full activation of the South Texas Family Residential Center. The aforementioned \$13.5 million aggregate depreciation and interest expense associated with the lease at the South Texas Family Residential Center in the three months ended March 31, 2016 is not included in the facility net operating income amounts reported above, but is included in the per compensated man-day statistics.

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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 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, 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. ICE Health Service Corps, a division of ICE, is responsible for medical services provided to residents. The 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**.** However, ICE can also terminate the agreement for convenience, without penalty, by providing us with at least a 90-day notice. In addition, terms allow for ICE to terminate the agreement with us at any time, without penalty, due to a non-appropriation of funds. In the event ICE elects to terminate the amended IGSA due to a non-appropriation of funds, we must provide a 60-day notice period to the lessor. Although we expect that ICE would provide advance notice, if ICE terminates the IGSA due to non-appropriation of funds without notice to us, we may not be able to provide a timely termination notice to the lessor and could, therefore, be subject to, among other termination payments, a penalty the equivalent of up to two months of payments due to the lessor, which would currently amount to approximately $13.5 million.

We lease the South Texas Family Residential Center and the site upon which it was 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 was completed 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 to us pursuant to the IGSA is recognized as lease and service revenue. During the three months ended March 31, 2016 and 2015, we recognized $70.8 million and $36.0 million, respectively, in total revenue associated with the facility. The expanded agreement with ICE had a favorable impact on the revenue and net operating income of our owned and managed facilities during the three months ended March 31, 2016 and 2015, and is expected to continue to have a favorable impact on our financial results at an operating margin percentage comparable to those of our average owned and managed operating margins.

In June 2015, ICE announced a policy change with regards to family detention that has shortened the duration of ICE detention for those who are awaiting further process before immigration courts. Public policies and views regarding family detention, as well as proposals pertaining to the most effective means to address families crossing the border illegally, continue to evolve. In addition, numerous lawsuits, to which we are not a party, have challenged the government s policy of detaining migrant families. In one such lawsuit in the United States District Court for the Central District of California regarding a settlement agreement between ICE and a plaintiffs class consisting of detained minors, the court issued an order on August 21, 2015, enforcing the settlement agreement and requiring compliance by October 23, 2015. The court s order clarifies that the government has the flexibility to hold class members for longer periods of time during influxes of large numbers of undocumented migrant families via the southern U.S. border. After announcing its intention to comply fully with the court s order, the federal government appealed and was granted an expedited briefing schedule by the Ninth Circuit Court of Appeals. The oral argument in that appeal has been set for June 2016, and a decision will follow, though the timing of that decision is unknown. Any court decision or government action that impacts this contract could materially affect our cash flows, financial condition, and results of operations.

In December 2015, we announced that we were awarded a new management contract from the Arizona Department of Corrections, or ADOC, to house up to an additional 1,000 medium-security inmates at our Red Rock facility. The new management contract contains an initial term of ten years, with two five-year renewal options upon mutual agreement and provides for an occupancy guarantee of 90% of the contracted beds once the 90% occupancy rate is achieved. The government partner included the occupancy guarantee in its RFP in order to guarantee its access to the beds**.** In connection with the new award, we are expanding our Red Rock facility to a design capacity of 2,024 beds and adding additional space for inmate reentry programming. Construction is expected to be completed late in the fourth quarter of 2016, although we expect to begin receiving inmates under the new contract during the third quarter of 2016. The new contract is expected to generate approximately $22.0 million to $25.0 million of incremental annual revenue.

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 31,000 as of March 31, 2016.

During the first quarter of 2015, the adult inmate population held in state of California institutions first met the Federal court order to reduce inmate populations below 137.5% of its capacity. Inmate populations in the state continued to decline below the court ordered capacity limit which has resulted in declining inmate populations in the out-of-state program. As of March 31, 2016, the adult inmate population held in state of California institutions remained in compliance with the Federal court order at approximately 134.3% of capacity, or approximately 113,000 inmates, which did not include the California inmates held in our out-of-state facilities. During the three months ended March 31, 2016 and 2015, we housed an average daily population of approximately 5,100 and 8,800 inmates, respectively, from the state of California as a partial solution to the State s overcrowding. This decline in population resulted in a decrease in revenue of $21.9 million from the three months ended March 31, 2015 to the three months ended March 31, 2016. As of April 29, 2016, we housed approximately 4,900 inmates from the state of California.

On October 13, 2015, we announced that we renewed our contract with the California Department of Corrections and Rehabilitation, or CDCR, through June 30, 2019. The contract renewal provides for up to 6,562 beds to be made available to CDCR during the renewal term at any of our facilities. The contract includes renewal options to extend beyond

the three-year term upon mutual agreement by both parties. The remaining terms and conditions of the new contract are substantially unchanged from the previous contract, which was scheduled to expire June 30, 2016. Approximately 8% and 14% of our total revenue for the three months ended March 31, 2016 and 2015, respectively, was generated from the CDCR, including revenue generated at our California City facility under a lease agreement that commenced December 1, 2013. An 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 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 with a net carrying value of $31.6 million as of March 31, 2016. The contract with the BOP at this facility expired on May 31, 2015. Facility net operating income decreased by $5.5 million from the three months ended March 31, 2015 to the three months ended March 31, 2016 as a result of this reduction in inmate population. We expect to continue to house USMS detainees at this facility pursuant to a separate contract that expires December 31, 2016 with one two-year renewal option remaining, while we continue to market the space that became available.

During May 2015, the state of Vermont announced that it elected to not renew the contract that would have allowed for Vermont s continued use of our owned and operated 816-bed Lee Adjustment Center. The contract expired on June 30, 2015. We incurred a facility net operating loss at the facility of $0.4 million during the three months ended March 31, 2015. We idled the Lee Adjustment Center upon transfer of the offender population in June 2015, but continue to market the facility to other customers. The net carrying value of the facility was $10.7 million as of March 31, 2016.

During the fourth quarter of 2015, we closed on the acquisition of 100% of the stock of Avalon, along with two additional facilities operated by Avalon. The acquisition included 11 community corrections facilities with approximately 3,000 beds in Oklahoma, Texas, and Wyoming. We acquired Avalon, which specializes in community correctional services, drug and alcohol treatment services, and residential reentry services, as a strategic investment that continues to expand the reentry assets owned and services we provide. The operating margin for this portfolio during the first quarter of 2016 was 29.0%, consistent with the operating margins for our other owned and managed facilities. The average occupancy for the Avalon portfolio was 71% during the first quarter of 2016.

Managed-Only Facilities

Total revenue at our managed-only facilities decreased $3.1 million from $52.9 million during the first quarter of 2015 to $49.8 million during the first quarter of 2016. The decrease in revenues at our managed-only facilities was largely the result of our decision to exit the contract at the Winn Correctional Center effective September 30, 2015. Revenue per compensated man-day increased to $42.19 from $40.80, or 3.4%, for the first quarter of 2016 compared with the same period in the prior year. Operating expenses per compensated man-day increased to $38.18 during the three months ended March 31, 2016 from $37.00 during the same period in the prior year. Facility net operating income at our managed-only facilities decreased $0.2 million, from $4.9 million during the three months ended March 31, 2015 to $4.7 million during the three months ended March 31, 2016. During the three months ended March 31, 2016 and 2015, managed-only facilities generated 3.6% and 4.0%, respectively, of our total facility net operating income.

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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 April 2015, we provided notice to the state of Louisiana that we would cease management of the contract at the 1,538-bed Winn Correctional Center within 180 days, in accordance with the notice provisions of the contract. Management of the facility transitioned to another operator effective September 30, 2015. We incurred a facility net operating loss at the Winn Correctional Center of $1.3 million during 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.

General and administrative expense

For the three months ended March 31, 2016 and 2015, general and administrative expenses totaled $26.5 million and $26.9 million, respectively. General and administrative expenses consist primarily of corporate management salaries and benefits, professional fees and other administrative expenses. We incurred $1.1 million of expenses in the first quarter of 2016 associated with mergers and acquisitions. However, the increase was offset by the write-off in the first quarter of 2015 of costs associated with a project we no longer intended to pursue. As we pursue additional mergers and acquisitions, we could incur significant general and administrative expenses in the future associated with our due diligence efforts, whether or not such transactions are completed. These expenses could create volatility in our earnings.

Depreciation and Amortization

For the three months ended March 31, 2016 and 2015, depreciation and amortization expense totaled $42.1 million and $28.7 million, respectively. Our depreciation and amortization expense increased as a result of completion of construction of the 2,400-bed South Texas Family Residential Center in the second quarter of 2015. Prior to the second quarter of 2015, residents had been housed in pre-existing housing units on the property. Our lease agreement with the third-party lessor resulted in CCA being deemed the owner of the newly 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 costs attributable to the building assets constructed by the third-party lessor, which, beginning in the second quarter of 2015, began depreciating over the remainder of the four-year term of the lease. Depreciation expense for the constructed assets at this facility included $10.6 million during the three months ended March 31, 2016, and is expected to approximate $43.0 million during the year ending December 31, 2016. Depreciation expense also increased in the first quarter of 2016 when compared to the same period in the prior year due to the completion of the Trousdale Turner Correctional Center construction project in the fourth quarter of 2015.

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Interest expense, net

Interest expense is reported net of interest income and capitalized interest for the three months ended March 31, 2016 and 2015. Gross interest expense, net of capitalized interest, was $17.6 million and $10.3 million, respectively, for the three months ended March 31, 2016 and 2015. Gross interest expense is based on outstanding borrowings under our $900.0 million revolving credit facility, or revolving credit facility, our outstanding Incremental Term Loan, or Term Loan, and our outstanding senior notes, as well as the amortization of loan costs and unused facility fees. We also incur interest expense associated with the lease of the South Texas Family Residential Center, in accordance with ASC 840-40-55. Our interest expense increased as a result of completion of construction of the 2,400-bed South Texas Family Residential Center in the second quarter of 2015. Interest expense associated with the lease of this facility was $2.9 million during the three months ended March 31, 2016, and is expected to approximate $10.5 million in 2016.

We have benefited from relatively low interest rates on our revolving credit facility, which is largely based on the London Interbank Offered Rate, or 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 the first six months of 2015. During July 2015, we amended and restated the revolving credit facility agreement to, among other modifications, reduce by 0.25% the applicable margin of base rate and LIBOR loans. Based on our leverage ratio, loans under our revolving credit facility during the first quarter of 2016 were at the base rate plus a margin of 0.50% or at LIBOR plus a margin of 1.50%, and a commitment fee equal to 0.35% of the unfunded balance.

On September 25, 2015, we completed the offering of $250.0 million aggregate principal amount of 5.0% senior notes due October 15, 2022. We used net proceeds from the offering to pay down a portion of our revolving credit facility which had a variable weighted average interest rate of 1.9% at March 31, 2016. While our interest expense increased during the first quarter of 2016 and is expected to increase during the remainder of 2016 as a result of this refinancing transaction completed in 2015, we reduced our exposure to variable rate debt, extended our weighted average maturity, and increased the availability under our revolving credit facility.

Gross interest income was $0.1 million for both the three months ended March 31, 2016 and 2015. Gross interest income is earned on a direct financing lease, notes receivable, investments, and cash and cash equivalents. Capitalized interest was $0.1 million and $1.2 million during the three months ended March 31, 2016 and 2015, respectively. Capitalized interest decreased as a result of the completion of the Otay Mesa Detention Center and the Trousdale Turner Correctional Center construction projects in the fourth quarter of 2015. Capitalized interest in the first quarter of 2016 was primarily associated with the expansion project at our Red Rock Correctional Center, as further described under Liquidity and Capital Resources hereafter.

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Income tax expense

During the three months ended March 31, 2016 and 2015, our financial statements reflected an income tax expense of $1.2 million and $1.4 million, respectively. Our effective tax rate was 2.4% during both the three months ended March 31, 2016 and 2015. 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 2015 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 and residential reentry facilities as well as other real estate assets used to provide mission critical governmental services primarily in the criminal justice sector, 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 2016 totaling $64.0 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.

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As of March 31, 2016, our liquidity was provided by cash on hand of $54.8 million, and $484.5 million available under our revolving credit facility. During the three months ended March 31, 2016 and 2015, we generated $120.3 million and $117.2 million, respectively, in cash through operating activities. We currently expect to be able to meet our cash expenditure requirements for the next year utilizing these resources. We have no debt maturities until April 2020.

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 and equity

As of March 31, 2016, 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 $250.0 million principal amount of unsecured notes outstanding with a fixed stated interest rate of 5.0%. In addition, we had $98.8 million outstanding under our Term Loan with a variable interest rate of 2.2%, and $394.0 million outstanding under our revolving credit facility with a variable weighted average interest rate of 1.9%. As of March 31, 2016, our total weighted average effective interest rate was 4.0%, while our total weighted average maturity was 5.3 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 February 26, 2016, we entered into an ATM Equity Offering Sales Agreement, or ATM Agreement, with multiple sales agents. Pursuant to the ATM Agreement, we may offer and sell to or through the sales agents from time to time, shares of our common stock, par value $0.01 per share, having an aggregate gross sales price of up to $200.0 million. Sales, if any, of our shares of common stock will be made primarily in at-the-market offerings, as defined in Rule 415 under the Securities Act of 1933, as amended. The shares of common stock will be offered and sold pursuant to our registration statement on Form S-3 filed with the SEC on May 15, 2015, and a related prospectus supplement dated February 26, 2016. We intend to use the net proceeds from any sale of shares of our common stock to repay borrowings under our revolving credit facility (including the Term Loan under the accordion feature of the revolving credit facility) and for general corporate purposes, including to fund future acquisitions and development projects. There were no shares of our common stock sold under the ATM Agreement during the three months ended March 31, 2016.

On June 11, 2015, Moody s raised our senior unsecured debt rating to Baa3 from Ba1 and revised t rating outlook to stable from positive. 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 note Additionally, on April 5, 2013, Standard & Poor s Ratings Services assigned a rating of BBB to our 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.

Acquisitions

On April 8, 2016, we closed on the acquisition of 100% of the stock of Correctional Management, Inc., or CMI, along with the real estate used in the operation of CMI s business from two entities affiliated with CMI. CMI, a privately held community corrections company that operates seven community corrections facilities, including six owned and one leased, with approximately 600 beds in Colorado, specializes in community correctional services, drug and alcohol treatment services, and residential reentry services. CMI provides these services through multiple contracts with three counties in Colorado, as well as the Colorado Department of Corrections, a current partner of ours. We acquired CMI as a strategic investment that continues to expand the reentry assets owned and services we provide. The aggregate purchase price of the transaction was $35.0 million, excluding transaction related expenses. The transaction was funded utilizing cash from our revolving credit facility. We currently expect the annualized revenues to be generated by these seven facilities to range from approximately $12.0 million to $13.0 million.

Facility development and capital expenditures

In December 2015, we announced we were awarded a new contract from the ADOC to house up to an additional 1,000 medium-security inmates at our 1,596-bed Red Rock Correctional Center in Arizona. In connection with the new contract, we are expanding our Red Rock facility to a design capacity of 2,024 beds and adding additional space for inmate reentry programming. Total cost of the expansion is estimated at approximately $35.0 million to $38.0 million, including $8.8 million invested through March 31, 2016. Construction is expected to be completed late in the fourth quarter of 2016, although we expect to begin receiving inmates under the new contract during the third quarter of 2016.

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 recently constructed 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. We also expect to continue to pursue investment opportunities and are in various stages of due diligence to complete additional transactions like the acquisition of four residential reentry facilities in Pennsylvania in the third quarter of 2015, and business combination transactions like the acquisitions of Avalon and CMI. The transactions that have not yet closed are subject to various customary closing conditions, and we can provide no assurance that any such transactions will ultimately be completed. We are also pursuing investment opportunities in other real estate assets used to provide mission critical governmental services primarily in the criminal justice sector. In the long-term, however, we would like to see meaningful utilization of our available capacity and better visibility from our customers before we add any additional prison capacity on a speculative basis.

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Operating Activities

Our net cash provided by operating activities for the three months ended March 31, 2016 was $120.3 million, compared with $117.2 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, 2016 when compared to the same period in the prior year and routine timing differences in the collection of accounts receivables and in the payment of accounts payables, accrued salaries and wages, and other liabilities. These increases were partially offset by a decrease in deferred revenues associated with the South Texas Family Residential Center.

Investing Activities

Our cash flow used in investing activities was $14.2 million for the three months ended March 31, 2016 and was primarily attributable to capital expenditures during the three-month period of $14.1 million, including expenditures for facility development and expansions of $7.8 million primarily related to the aforementioned expansion project at our Red Rock Correctional Center, and $6.3 million for facility maintenance and information technology capital expenditures. 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 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 South Texas Family Residential Center.

Financing Activities

Cash flow used in financing activities was $116.6 million for the three months ended March 31, 2016 and was primarily attributable to dividend payments of $65.1 million and $3.5 million for the purchase and retirement of common stock that was issued in connection with equity-based compensation. Further, cash flow used in financing activities included $46.3 million of net repayments under our revolving credit facility and Term Loan. In addition, cash flow used in financing activities included $3.3 million of cash payments associated with the financing components of the lease related to the South Texas Family Residential Center.

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.

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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, 2016 and 2015 is as follows (in thousands):

	For the Three Months Ended March 31,	
	2016	2015
FUNDS FROM OPERATIONS:		
Net income	**$ 46,307**	$ 57,277
Depreciation of real estate assets	**23,337**	21,272
Funds From Operations	**69,644**	78,549
Expenses associated with mergers and acquisitions, net of taxes	**1,143**	
Goodwill and other impairments, net of taxes		955
Normalized Funds From Operations	**$ 70,787**	$ 79,504

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Contractual Obligations

The following schedule summarizes our contractual cash obligations by the indicated period as of March 31, 2016 (in thousands):

	Payments Due By Year Ended December 31,						
	2016 (remainder)	2017	2018	2019	2020	Thereafter	Total
Long-term debt	$ 3,750	$ 10,000	$ 10,000	$ 15,000	$ 779,000	$ 600,000	$ 1,417,750
Interest on senior notes	42,788	42,094	42,094	42,094	35,390	65,469	269,929
Contractual facility developments and other commitments	34,528						34,528
South Texas Family Residential Center	63,455	73,412	53,733				190,600
Operating leases	429	581	605	615	563	864	3,657
Total contractual cash obligations	$ 144,950	$ 126,087	$ 106,432	$ 57,709	$ 814,953	$ 666,333	$ 1,916,464

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, even though many of these agreements provide us with the ability to terminate if ICE terminates the amended IGSA.

We had $21.5 million of letters of credit outstanding at March 31, 2016 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, 2016 or 2015.

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.

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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 and Term Loan because the interest rate on our revolving credit facility and Term Loan are subject to fluctuations in the market. If the interest rate for our outstanding indebtedness under the revolving credit facility and Term Loan was 100 basis points higher or lower during the three months ended March 31, 2016, our interest expense, net of amounts capitalized, would have been increased or decreased by $1.4 million.

As of March 31, 2016, we had outstanding $325.0 million of senior notes due 2020 with a fixed interest rate of 4.125%, $350.0 million of senior notes due 2023 with a fixed interest rate of 4.625%, and $250.0 million of senior notes due 2022 with a fixed interest rate of 5.0%. 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 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 9 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, 2015.

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.

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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.

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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 5, 2016

/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