ADVANCE AUTO PARTS INC
Form SC 13G/A
February 13, 2012

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 13G

Under the Securities Exchange Act of 1934

(Amendment No:  2)

ADVANCE AUTO PARTS INC
---------------------------------------------------------
(Name of Issuer)

Common Stock
---------------------------------------------------------
(Title of Class of Securities)

00751Y106
---------------------------------------------------------
(CUSIP Number)

December 30, 2011
---------------------------------------------------------
(Date of Event Which Requires Filing of this Statement)

Check the appropriate box to designate the rule pursuant to which this Schedule is filed:

[X] Rule 13d-1(b)
[ ] Rule 13d-1(c)
[ ] Rule 13d-1(d)

*The remainder of this cover page shall be filled out for a reporting person's initial filing on this form with respect to the subject class of securities, and for any subsequent amendment containing information which would alter the disclosures provided in a prior cover page.

The information required in the remainder of this cover page shall not be deemed to be "filed" for the purpose of Section 18 of the Securities Exchange Act of 1934 ("Act") or otherwise subject to the liabilities of that section of the Act but shall be subject to all other provisions of the Act (however, see the Notes).

CUSIP No.   00751Y106

(1)Names of reporting persons. BlackRock, Inc.

(2) Check the appropriate box if a member of a group
(a) [  ]

(b) [X]

(3) SEC use only

(4) Citizenship or place of organization

Delaware

Number of shares beneficially owned by each reporting person with:

(5) Sole voting power

4125800

(6) Shared voting power

None

(7) Sole dispositive power

4125800

(8) Shared dispositive power

None

(9) Aggregate amount beneficially owned by each reporting person

4125800

(10) Check if the aggregate amount in Row (9) excludes certain shares

(11) Percent of class represented by amount in Row 9

5.70%

(12) Type of reporting person

HC

Item 1.

Item 1(a) Name of issuer:
-----------------------------------------------------------------------

ADVANCE AUTO PARTS INC

Item 1(b) Address of issuer's principal executive offices:
-----------------------------------------------------------------------

5673 Airport RD
Roanoke VA 24012

Item 2.

2(a) Name of person filing:
----------------------------------------------------------------------
BlackRock, Inc.

2(b) Address or principal business office or, if none, residence:
-----------------------------------------------------------------------
BlackRock Inc.
40 East 52nd Street
New York, NY 10022

2(c) Citizenship:
--------------------------------------------------------------------
See Item 4 of Cover Page

2(d) Title of class of securities:
-------------------------------------------------------------------

Common Stock

2(e) CUSIP No.:
See Cover Page

Item 3.

If this statement is filed pursuant to Rules 13d-1(b), or 13d-2(b) or (c), check whether the person filing is a:
[ ] Broker or dealer registered under Section 15 of the Act;
[ ] Bank as defined in Section 3(a)(6) of the Act;
[ ] Insurance company as defined in Section 3(a)(19) of the Act;
[ ] Investment company registered under Section 8 of the Investment Company Act of 1940;
[ ] An investment adviser in accordance with Rule 13d-1(b)(1)(ii)(E);
[ ] An employee benefit plan or endowment fund in accordance with Rule 13d-1(b)(1)(ii)(F);
[X] A parent holding company or control person in accordance with Rule 13d-1(b)(1)(ii)(G);
[ ] A savings associations as defined in Section 3(b) of the Federal Deposit Insurance Act (12 U.S.C. 1813);
[ ] A church plan that is excluded from the definition of an investment company under section 3(c)(14) of the Investment Company Act of 1940;
[ ] A non-U.S. institution in accordance with Rule 240.13d-1(b)(1)(ii)(J);
[ ] Group, in accordance with Rule 240.13d-1(b)(1)(ii)(K). If filing as a non-U.S. institution in accordance with Rule 240.13d-1(b)(1)(ii)(J), please specify the type of institution:

Item 4. Ownership

Provide the following information regarding the aggregate number and percentage of the class of securities of the issuer identified in Item 1.

Amount beneficially owned:

4125800

Percent of class

5.70%

Number of shares as to which such person has:

Sole power to vote or to direct the vote

4125800

Shared power to vote or to direct the vote

None

Sole power to dispose or to direct the disposition of

4125800

Shared power to dispose or to direct the disposition of

None

Item 5.

Ownership of 5 Percent or Less of a Class. If this statement is being filed to report the fact that as of the date hereof the reporting person has ceased to be the beneficial owner of more than 5 percent of the class of securities, check the following [  ].

Item 6. Ownership of More than 5 Percent on Behalf of Another Person

If any other person is known to have the right to receive or the power to direct the receipt of dividends from, or the proceeds from the sale of, such securities, a statement to that effect should be included in response to this item and, if such interest relates to more than 5 percent of the class, such person should be identified. A listing of the shareholders of an investment company registered under the Investment Company Act of 1940 or the beneficiaries of employee benefit plan, pension fund or endowment fund is not required.

Various persons have the right to receive or the power to direct the receipt of dividends from, or the proceeds from the sale of the common stock of
ADVANCE AUTO PARTS INC.
No one person's interest in the common stock of
ADVANCE AUTO PARTS INC
is more than five percent of the total outstanding common shares.

Item 7. Identification and Classification of the Subsidiary Which Acquired the Security Being Reported on by the Parent Holding Company or Control Person.

See Exhibit A

Item 8. Identification and Classification of Members of the Group

If a group has filed this schedule pursuant to Rule 13d-1(b)(ii)(J), so indicate under Item 3(j) and attach an exhibit stating the identity and Item 3 classification of each member of the group. If a group has filed this schedule pursuant to Rule 13d-1(c) or Rule 13d-1(d), attach an exhibit stating the identity of each member of the group.

Item 9. Notice of Dissolution of Group

Notice of dissolution of a group may be furnished as an exhibit stating the date of the dissolution and that all further filings with respect to transactions in the security reported on will be filed, if required, by members of the group, in their individual capacity.

See Item 5.

Item 10. Certifications
By signing below I certify that, to the best of my knowledge and belief, the securities referred to above were acquired and are held in the ordinary course of business and were not acquired and are not held for the purpose of or with the effect of changing or influencing the control of the issuer of the securities and were not acquired and are not held in connection with or as a participant in any transaction having that purpose or effect.

Signature.

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this statement is true, complete and correct.

Dated:  January 20, 2012
BlackRock, Inc.

Signature:  Matthew J. Fitzgerald

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Name/Title  Attorney-In-Fact

The original statement shall be signed by each person on whose behalf the statement is filed or his authorized representative. If the statement is signed on behalf of a person by his authorized representative other than an executive officer or general partner of the filing person, evidence of the representative's authority to sign on behalf of such person shall be filed with the statement, provided, however, that a power of attorney for this purpose which is already on file with the Commission may be incorporated by reference. The name and any title of each person who signs the statement shall be typed or printed beneath his signature.

Attention: Intentional misstatements or omissions of fact constitute Federal criminal violations (see 18 U.S.C. 1001).

Exhibit A

Subsidiary

BlackRock Japan Co. Ltd.
BlackRock Advisors (UK) Limited
BlackRock Institutional Trust Company, N.A.
BlackRock Fund Advisors
BlackRock Asset Management Canada Limited
BlackRock Asset Management Australia Limited
BlackRock Advisors, LLC
BlackRock Investment Management, LLC
BlackRock Investment Management (Australia) Limited
BlackRock (Netherlands) B.V.
BlackRock Asset Management Ireland Limited
BlackRock International Limited
BlackRock Investment Management (UK) Limited

*Entity beneficially owns 5% or greater of the outstanding shares of the security class being reported on this Schedule 13G.

Exhibit B

POWER OF ATTORNEY

The undersigned, BLACKROCK, INC., a corporation duly organized under the laws of the State of Delaware, United States (the "Company"), does hereby make, constitute and appoint each of Robert Connolly, Howard Surloff, Edward Baer, Bartholomew Battista, Daniel Waltcher, Karen Clark, John Stelley, Daniel Ronnen, Brian Kindelan, Andrew Crain, Con Tzatzakis, John Blevins, Rick F. Froio and Matthew Fitzgerald acting severally, as its true and lawful attorneys-in-fact, for the purpose of, from time to time, executing in its name and on its behalf, whether the Company is acting individually or as representative of others, any and all documents, certificates, instruments, statements, other filings and amendments to the foregoing (collectively, "documents") determined by such person to be necessary or appropriate to comply with ownership or control-person reporting requirements imposed by any United States or non-United States governmental or regulatory authority, including without limitation Forms 3, 4, 5, 13D, 13F, 13G and 13H and any amendments to any of the foregoing as may be required to be filed with the Securities and Exchange Commission, and delivering, furnishing or filing any such documents with the appropriate governmental, regulatory authority or other person, and giving and granting to each such attorney-in-fact power and authority to act in the premises as fully and to all intents and purposes as the Company might or could do if personally present by one of its authorized signatories, hereby ratifying and confirming all that said attorney-in-fact shall lawfully do or cause to be done by virtue hereof. Any such determination by an attorney-in-fact named herein shall be conclusively evidenced by such person's execution, delivery, furnishing or filing of the applicable document.

This power of attorney shall expressly revoke the power of attorney dated October 5, 2011 in respect of the subject matter hereof, shall be valid from the date hereof and shall remain in full force and effect until either revoked in writing by the Company, or, in respect of any attorney-in-fact named herein, until such person ceases to be an employee of the Company or one of its affiliates.

IN WITNESS WHEREOF, the undersigned has caused this power of attorney to be executed as of this 30th day of November, 2011.

BLACKROCK, INC.

By:_ /s/ Robert W. Doll, Jr.
Name: Robert W. Doll, Jr.
Title: Vice Chairman

tom"> (3.1) (7.2%)

| | | | | |
|---|---|---|---|---|
| Total management revenue | **1,317.0** | 1,198.3 | 118.7 | 9.9% |
| Rental and other revenue | **28.3** | 25.1 | 3.2 | 12.7% |
| Total revenue | **$1,345.3** | $1,223.4 | $121.9 | 10.0% |

The $51.3 million, or 12.9%, increase in revenue associated with the operation and management of correctional and detention facilities during the third quarter of 2015 compared with the third quarter of 2014 consisted of an increase in revenue of approximately $63.4 million resulting from an increase of 16.4% in average revenue per compensated man-day, partially offset by a decrease in revenue of approximately $12.1 million caused by a decrease in the average daily compensated population from 2014 to 2015. The $118.7 million, or 9.9%, increase in revenue associated with the operation and management of correctional and detention facilities during the nine months ended September 30, 2015 compared with the same period in the prior year consisted of an increase in revenue of approximately $180.1 million resulting from an increase of 15.8% in average revenue per compensated man-day, partially offset by a decrease in revenue of approximately $61.4 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 in both periods 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

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from 2014 to 2015. Excluding the impact of revenue at the South Texas Family Residential Center, revenue per compensated man-day increased 1.7% and 3.1% for the three and nine months ended September 30, 2015, respectively, compared with 2014.

Average daily compensated population decreased 2,079, or 3.0%, from 68,544 during the three months ended September 30, 2014 to 66,465 during the three months ended September 30, 2015, while average daily compensated population for the nine months ended September 30, 2015 decreased 3,606 from the comparable period in 2014. The decline in average compensated population in both periods primarily resulted from the expiration of our contract with the Federal Bureau of Prisons, or BOP, at our Northeast Ohio Correctional Center effective May 31, 2015, and due to a decline in California inmates held in our out-of-state facilities, both as further described hereafter. A decline in federal populations at certain of our other facilities also contributed to the decrease in average compensated population from 2014 to 2015.

The decline in average compensated population during the nine-month period also 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 during the nine-month period 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, or DMS, awarded the management of these contracts to another operator effective January 31, 2014. Combined, these four facilities generated facility net operating losses of $1.9 million during the time they were active in 2014. The decline in average compensated population in both periods was partially offset by an increase in populations at our newly activated South Texas Family Residential Center and at our Red Rock Correctional Center, both as further described hereafter.

Business from our federal customers, including primarily the BOP, the United States Marshals Service, or USMS, and ICE, continues to be a significant component of our business. Our federal customers generated approximately 53% and 45% of our total management revenue for the three months ended September 30, 2015 and 2014, respectively, increasing $59.1 million, or 32.9%. Our federal customers generated approximately 51% and 44% of our total management revenue for the nine months ended September 30, 2015 and 2014, respectively, increasing $145.9 million, or 27.4%. The increase in federal revenues in both periods 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, including the BOP population at our Northeast Ohio Correctional Center, as further described hereafter.

Despite our increase in federal revenue, inmate populations in federal facilities, particularly within the BOP system nationwide, have declined over the past two years. Inmate populations in the BOP system are expected to decline further in the fourth quarter of 2015, and potentially future quarters, primarily due to the retroactive application of changes to sentencing guidelines applicable to federal drug trafficking offenses. However, we do not expect a significant impact because BOP inmate populations within our facilities are primarily criminal aliens incarcerated for immigration violations rather than drug trafficking offenses. Further, the BOP correctional system remains overcrowded at approximately 122.4% at September 30, 2015. Nonetheless, increases in capacity within the federal system could result in a decline in BOP populations within our facilities.

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State revenues from facilities that we manage decreased 3.0% from the third quarter of 2014 to the third quarter of 2015, and decreased 3.8% from the nine months ended September 30, 2014 to the same period in 2015. The decrease in state revenues in both the three- and nine-month periods was primarily a result of a decline in California inmates held in our out-of-state facilities, as further described hereafter. In addition, the decrease in state revenues in both periods was a result of the expiration of our contract with the state of Vermont at our Lee Adjustment Center effective June 30, 2015, as further described hereafter. The decrease in state revenues during the nine-month period was also 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. The decrease in state revenues in both the three- and nine-month periods was 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 improvements in their budgets which has resulted in our ability to secure recent per diem increases at certain facilities. Further, several of our existing state partners, as well as state partners with which we do not currently do business, are experiencing growth in inmate populations and overcrowded conditions. Although we can provide no assurance that we will enter into any new contracts, we believe we are in a good position to not only provide them with needed bed capacity, but with the programming and re-entry services they are seeking.

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

Rental and other revenue during the nine months ended September 30, 2015 increased when compared to the same period in the prior year 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 the first quarter of 2014.

*Operating Expenses*

Operating expenses totaled $326.5 million and $282.7 million for the three months ended September 30, 2015 and 2014, respectively, while operating expenses for the nine months ended September 30, 2015 and 2014 totaled $945.2 million and $857.7 million, 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 $45.5 million, or 16.5% during the third quarter of 2015 compared with the same period in 2014. Operating expenses increased $82.3 million, or

9.8% during the first nine months of 2015 compared with the same period in 2014. Similar to our increase in revenues, operating expenses in both periods 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. The additional inmate population at our Red Rock Correctional Center, as further described hereafter, also contributed to the increase in operating expenses in both the three- and nine-month periods. The increase in operating expenses in both periods was partially offset by a reduction in expenses resulting from the expiration of our BOP contract at our Northeast Ohio Correctional Center effective May 31, 2015 and the expiration of our contract with the state of Vermont at our Lee Adjustment Center effective June 30, 2015, both as further described hereafter. The increase in operating expenses in the nine-month period was also partially offset by a reduction in expenses resulting from 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 $38.80 during the three months ended September 30, 2015 from $32.37 during the three months ended September 30, 2014. Fixed expenses per compensated man-day increased to $37.16 during the nine months ended September 30, 2015 from $32.51 during the same period in 2014. Fixed expenses per compensated man-day for the three and nine months ended September 30, 2015 include depreciation expense of $10.7 million and $19.2 million, respectively, and interest expense of $3.2 million and $5.4 million, respectively, 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 increases of $3.59 and $2.71 per compensated man-day for the three and nine months ended September 30, 2015, respectively.

Fixed expenses per compensated man-day also increased due to an increase in salaries and benefits per compensated man-day of $3.26 and $2.73 for the three- and nine-month periods, respectively. The increase in salaries and benefits per compensated man-day in both periods resulted primarily from a higher average wage rate at our South Texas Family Residential Center, which accounted for increases of $1.22 and $1.19 per compensated man-day for the three- and nine-month periods, respectively. The increase in salaries and benefits per compensated man-day was also due to necessary staffing required during the decline in California inmate populations, expenses associated with the termination of the contract at the Winn Correctional Center, inflationary increases, and higher employee benefits. Salaries and benefits represent the most significant component of our operating expenses, representing approximately 62% of our total operating expenses during 2014 and 59% for the first nine months of 2015.

Variable expenses per compensated man-day increased $4.64 and $3.72, respectively, during the three and nine months ended September 30, 2015 from the same periods in the prior year. The increase in both periods was primarily due to expenses associated with activating our South Texas Family Residential Center, and due to an increase in other variable expenses. Variable expenses at the South Texas Family Residential Center accounted for increases of $3.29 and $2.79 per compensated man-day for the three- and nine-month periods, respectively.

Operating expenses also increased from the nine months ended September 30, 2014 to the nine months ended September 30, 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.

*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 with a net carrying value of $32.1 million as of September 30, 2015. The contract with the BOP at this facility expired on May 31, 2015. Facility net operating income decreased by $5.1 million from the third quarter of 2014 to the third quarter of 2015 and decreased by $6.0 million from the first nine months of 2014 to the same period in 2015 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.

In April 2015, we provided notice to the state of Louisiana that we would cease management of the managed-only contract at the state-owned 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 generated facility net operating income at this facility of $0.4 million and $1.0 million for the three and nine months ended September 30, 2014, respectively, and incurred a facility net operating loss of $1.0 million and $3.9 million for the three and nine months ended September 30, 2015, respectively. 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 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. During the first six months of 2015, the offender population at the Lee Adjustment Center averaged 308 offenders, compared with 458 offenders during the same period in 2014. We generated facility net operating income at this facility of $0.3 million and $0.6 million for the three and nine months ended September 30, 2014, respectively. We incurred a facility net operating loss at the Lee Adjustment Center of $1.2 million during the time the facility was active in 2015. We idled the facility upon transfer of the offender population in June 2015, but will continue to market the facility to other customers. The net carrying value of the Lee Adjustment Center was $11.0 million as of September 30, 2015.

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

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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:

| | For the Three Months Ended September 30, | | For the Nine Months Ended September 30, | |
|---|---|---|---|---|
| | **2015** | 2014 | **2015** | 2014 |
| **Owned and Managed Facilities:** | | | | |
| Revenue per compensated man-day | **$ 82.75** | $ 69.65 | **$ 80.86** | $ 69.15 |
| Operating expenses per compensated man-day: | | | | |
| Fixed expense | **42.15** | 34.32 | **40.09** | 34.60 |
| Variable expense | **17.29** | 11.66 | **16.07** | 11.52 |
| Total | **59.44** | 45.98 | **56.16** | 46.12 |
| Operating income per compensated man-day | **$ 23.31** | $ 23.67 | **$ 24.70** | $ 23.03 |
| Operating margin | **28.2%** | 34.0% | **30.5%** | 33.3% |
| Average compensated occupancy | **79.9%** | 81.3% | **81.5%** | 81.6% |
| Average available beds | **65,019** | 66,222 | **64,228** | 66,222 |
| Average compensated population | **51,962** | 53,857 | **52,351** | 54,036 |

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| | For the Three Months Ended September 30, | | For the Nine Months Ended September 30, | |
|---|---|---|---|---|
| | **2015** | 2014 | **2015** | 2014 |
| **Managed Only Facilities:** | | | | |
| Revenue per compensated man-day | **$ 41.03** | $ 39.90 | **$ 40.92** | $ 39.88 |
| Operating expenses per compensated man-day: | | | | |
| Fixed expense | **26.82** | 25.24 | **26.57** | 25.62 |
| Variable expense | **10.93** | 9.77 | **10.71** | 10.09 |
| Total | **37.75** | 35.01 | **37.28** | 35.71 |
| Operating income per compensated man-day | **$ 3.28** | $ 4.89 | **$ 3.64** | $ 4.17 |
| Operating margin | **8.0%** | 12.3% | **8.9%** | 10.5% |
| Average compensated occupancy | **94.0%** | 95.1% | **93.6%** | 95.1% |
| Average available beds | **15,436** | 15,436 | **15,436** | 17,210 |
| Average compensated population | **14,503** | 14,687 | **14,450** | 16,371 |

*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 $8.1 million, from $117.3 million during the third quarter of 2014 to $125.4 million during the third quarter of 2015, an increase of 6.9%. Facility net operating income at our owned and managed facilities increased by $40.8 million, from $336.9 million during the nine months ended September 30, 2014 to $377.7 million during the nine months ended September 30, 2015, an increase of 12.1%. Facility net operating income at our owned and managed facilities in the three and nine months ended September 30, 2015 was favorably impacted by the activation of the South Texas Family Residential Center, as further described hereafter. The aforementioned $13.9 million and $24.6 million aggregate depreciation and interest expense associated with the lease at the South Texas Family Residential Center in the three and nine months ended September 30, 2015, respectively, is not included in the facility net operating income amounts reported above, but is included in the per compensated man-day statistics.

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 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

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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.

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 is recognized as lease and service revenue. During the three and nine months ended September 30, 2015, we recognized $71.2 million and $173.1 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 and nine months ended September 30, 2015 and is expected to continue to have a favorable impact on our financial results at operating margins 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 may shorten the duration of ICE detention for those who are awaiting further process before immigration courts. 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. The order, however, could require ICE to shorten the duration of detention of class members, which could impact the South Texas Family Residential Center.

The federal government filed its notice of appeal, specifying two grounds, while announcing its intention to comply with the court s order during the appeal s pendency. The government must file its opening brief in the appeal by February 29, 2016. The class members must respond to the government s brief no later than March 30, 2016. Any court decision or government action that impacts 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 management contract, which commenced in January 2014, contains an initial term of ten years, with two five-year renewal 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. In addition, in July 2015, we entered into a temporary agreement with the state of Arizona to house approximately 560 inmates for a period not to exceed 180 days. Revenue and facility

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net operating income increased by $6.1 million and $3.2 million, respectively, from the third quarter of 2014 to the third quarter of 2015, and increased by $11.9 million and $6.1 million, respectively, from the first nine months of 2014 to the same period in 2015 as a result of these increases in inmate populations.

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 September 30, 2015. As of September 30, 2015, the adult inmate population held in state of California institutions met the Federal court order at approximately 135.4% of capacity, or approximately 112,000 inmates, which did not include the California inmates held in our out-of-state facilities.

We expect a decline in California inmates housed in certain of our facilities located outside the state of California as a result of decreases in inmate populations within the State s correctional system. During the first quarter of 2015, the adult inmate population held in state of California institutions met the Federal court order to reduce inmate populations below 137.5% of its capacity. Inmate populations in the state have continued to decline below the court ordered capacity limit which has resulted in declining inmate populations in the out-of state program. During the quarters ended September 30, 2015 and 2014, we housed an average daily population of approximately 6,850 and 8,850 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 $11.6 million from the third quarter of 2014 to the third quarter of 2015. As of October 31, 2015, we housed approximately 5,600 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 existing contract, which was scheduled to expire June 30, 2016. Approximately 12% and 15% of our total revenue for the nine months ended September 30, 2015 and 2014, 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 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 for the nine-month period ended September 30, 2014 exclude expenses incurred during the first six months of 2014 for the Diamondback facility because of the distorted impact they have on the statistics.

On October 28, 2015, we closed on the acquisition of 100% of the stock of Avalon, along with a facility operated by Avalon, and entered into an agreement to purchase an additional facility operated by Avalon that is expected to close in the fourth quarter of 2015. Avalon, a privately held community corrections company that operates 11 community corrections facilities with approximately 3,000 beds in Oklahoma, Texas, and Wyoming, specializes in community correctional services, drug and alcohol treatment services, and residential re-entry services. Avalon provides these services for various federal, state, and local agencies, many with which we currently partner. We acquired Avalon as a strategic investment that continues to expand the re-entry assets owned and services we provide. We currently expect the annualized revenues to be generated by these 11 facilities to range from approximately $35.0 million to $40.0 million.

*Managed-Only Facilities*

Total revenue at our managed-only facilities increased $0.9 million, from $53.9 million during the third quarter of 2014 to $54.8 million during the third quarter of 2015, and decreased $16.8 million, from $178.2 million during the nine months ended September 30, 2014 to $161.4 million during the nine months ended September 30, 2015. The decrease in revenues at our managed-only facilities for the nine-month period 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 $41.03 from $39.90, or 2.8%, for the third quarter of 2015 compared with the same period in the prior year, and to $40.92 from $39.88, or 2.6%, for the nine months ended September 30, 2015 compared with the same period in the prior year. Operating expenses per compensated man-day increased to $37.75 during the third quarter of 2015 from $35.01 during the same period in the prior year, and to $37.28 during the nine months ended September 30, 2015 from $35.71 during the same period in the prior year. Facility net operating income at our managed-only facilities decreased $2.2 million, from $6.6 million during the three months ended September 30, 2014 to $4.4 million during the three months ended September 30, 2015, and decreased $4.4 million, from $18.7 million during the nine months ended September 30, 2014 to $14.3 million during the nine months ended September 30, 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 facility net operating loss of $1.9 million during the time it was active in 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 April 2015, we provided notice to the state of Louisiana that we would cease management of 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 generated facility net operating income at this facility of $0.4 million and $1.0 million for the three and nine months ended September 30, 2014, respectively, and incurred a facility net operating loss of $1.0 million and $3.9 million for the three and nine months ended September 30, 2015, respectively. 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 and nine months ended September 30, 2015, managed-only facilities generated 3.3% and 3.7%, respectively, of our total facility net operating income compared with 5.3% and 5.2% during the three and nine months ended September 30, 2014, respectively.

***General and administrative expense***

For the three months ended September 30, 2015 and 2014, general and administrative expenses totaled $26.8 million and $27.6 million, respectively, while general and administrative expenses totaled $76.8 million and $79.6 million during the nine months ended September 30, 2015 and 2014, respectively. General and administrative expenses consist primarily of corporate management salaries and benefits, professional fees and other administrative expenses. The decrease in general and administrative expenses in both the three- and nine-month periods was primarily a result of decreased incentive compensation and professional fees, partially offset by $1.7 million of expenses incurred during the third quarter of 2015 associated with mergers and acquisitions, including primarily expenses for the acquisition of Avalon, which closed on October 28, 2015.

***Depreciation and Amortization***

For the three months ended September 30, 2015 and 2014, depreciation and amortization expense totaled $41.2 million and $28.3 million, respectively, while depreciation and amortization expense totaled $108.3 million and $85.4 million, respectively, during the nine months ended September 30, 2015 and 2014. Our depreciation and amortization expense increased in both the three- and nine-month periods of 2015 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 being depreciated over the remainder of the four-year term of the lease. Depreciation expense for the constructed assets at this facility included $10.7 million and $19.2 million during the three and nine months ended September 30, 2015, respectively.

***Interest expense, net***

Interest expense is reported net of interest income and capitalized interest for the three and nine months ended September 30, 2015 and 2014. Gross interest expense, net of capitalized interest, was $12.8 million and $10.8 million, respectively, for the three months ended

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September 30, 2015 and 2014, and was $35.4 million and $32.3 million, respectively, for the nine months ended September 30, 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 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 in the both the three- and nine-month periods of 2015 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 $3.2 million and $5.4 million during the three and nine months ended September 30, 2015, respectively.

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 six months of 2015. Based on our leverage ratio, following an amendment to the revolving credit facility executed in July 2015, loans under our revolving credit facility bore interest at the base rate plus a margin of 0.25% or at LIBOR plus a margin of 1.25%, and a commitment fee equal to 0.30% of the unfunded balance. Based on our current leverage ratio, loans under our revolving credit facility bear interest at the base rate plus a margin of 0.50% or at LIBOR plus a margin of 1.50%, and a commitment fee equal to 0.35% of the unfunded balance.

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 1.5% at September 30, 2015. While we expect our interest expense will increase for the remainder of 2015 as a result of the refinancing transactions, 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 $1.0 million and $0.4 million for the three months ended September 30, 2015 and 2014, respectively. Gross interest income was $1.7 million and $3.2 million for the nine months ended September 30, 2015 and 2014, respectively. Gross interest income is earned on a direct financing lease, notes receivable, investments, and cash and cash equivalents. Interest income generated on investments we hold in a rabbi trust were higher during the nine months ended September 30, 2014 than the current nine-month period. Capitalized interest was $1.8 million and $0.7 million during the three months ended September 30, 2015 and 2014, respectively. Capitalized interest was $4.5 million and $1.7 million during the nine months ended September 30, 2015 and 2014, respectively. Capitalized interest was associated with various construction and expansion projects as further described under Liquidity and Capital Resources hereafter.

***Income tax expense***

During the three months ended September 30, 2015 and 2014, our financial statements reflected an income tax expense of $2.7 million and $2.1 million, respectively. During the nine months ended September 30, 2015 and 2014, our financial statements reflected an income tax expense of $6.7 million and $5.5 million, respectively. Our effective tax rate was 3.7% and 3.2% during the nine months ended September 30, 2015 and 2014, respectively. As a REIT, we are entitled to a deduction for dividends paid, resulting in a substantial

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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 and re-entry facilities as well as other real estate assets used to provide essential 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, second, and third quarters of 2015 totaling $63.6 million, $63.7 million, and $63.7 million, respectively. 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 September 30, 2015, our liquidity was provided by cash on hand of $78.4 million, and $490.9 million available under our $900.0 million revolving credit facility. We further increased our liquidity in October 2015 by obtaining a $100.0 million Incremental Term Loan, or Term Loan, under the accordion feature of our revolving credit facility, as further described hereafter. During the nine months ended September 30, 2015 and 2014, we

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generated $305.7 million and $248.7 million, respectively, in cash through operating activities, and as of September 30, 2015, we had net working capital of $50.8 million. 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 refinancing transactions***

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. As of September 30, 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%, $250.0 million principal amount of unsecured notes outstanding with a fixed stated interest rate of 5.0%, and $395.0 million outstanding under our revolving credit facility with a variable weighted average interest rate of 1.5%. As of September 30, 2015, our total weighted average effective interest rate was 3.3%, while our total weighted average maturity was 5.5 years.

In October 2015, we obtained the Term Loan under the accordion feature of our revolving credit facility. Interest rates under the Term Loan are the same as the interest rates under the revolving credit facility, except that the interest rate on the Term Loan is at a base rate plus a margin of 0.50% or at LIBOR plus a margin of 1.75% during the first two fiscal quarters following closing of the Term Loan. We used net proceeds from the Term Loan to pay down a portion of our revolving credit facility. The Term Loan has a maturity of July 2020, with scheduled principal payments in years 2016 through 2019. We also have the flexibility to issue additional 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.

We expect to capitalize a total of approximately $6.0 million of costs associated with debt refinancing transactions including the amendment to the revolving credit facility in July 2015, the issuance of the new senior notes in September 2015, and the Term Loan obtained in October 2015. We incurred $0.7 million of expenses during the three and nine months ended September 30, 2015 associated with the amendment to the revolving credit facility in July 2015, recognized as expenses associated with debt refinancing transactions in the Consolidated Statement of Operations.

On June 11, 2015, Moody s raised our senior unsecured debt rating to Baa3 from Ba1 and revised the 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 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.

***Facility development, acquisitions, and capital expenditures***

In order to retain federal inmate populations we managed in the 1,154-bed San Diego Correctional Facility, we constructed the 1,482-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. We completed construction of the Otay Mesa Detention Center for approximately $157.0 million and began transitioning operations in October 2015 from the San Diego Correctional Facility to the new facility. We expect to complete the transition of operations to the new facility during the fourth quarter of 2015 and transfer operations of the existing San Diego Correctional Facility to the County of San Diego by the lease expiration date on December 31, 2015.

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. In order to guarantee access to the beds, 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 $134.2 million invested through September 30, 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.

On August 27, 2015, we acquired four community corrections facilities from a privately held owner of community corrections facilities and other government leased assets for an all cash purchase price of approximately $13.8 million, excluding transaction related expenses. The four acquired community corrections facilities have a capacity of approximately 600 beds and are leased to Community Education Centers, Inc., or CEC, under triple net lease agreements that extend through July 2019 and include multiple five-year lease extension options. CEC separately contracts with the Pennsylvania Department of Corrections and the

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Philadelphia Prison System to provide rehabilitative and re-entry services to residents and inmates at the leased facilities. We acquired the four facilities in the real estate-only transaction as a strategic investment that expands our investment in the residential re-entry market.

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. We also expect to continue to pursue investment opportunities like the acquisition of the residential re-entry facilities in Pennsylvania and other real estate assets used to provide essential governmental services primarily in the criminal justice sector, as well as business combination transactions like the acquisition of Avalon. 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.

**Operating Activities**

Our net cash provided by operating activities for the nine months ended September 30, 2015 was $305.7 million, compared with $248.7 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 increases in operating income and positive fluctuations in working capital balances during the nine months ended September 30, 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 $225.7 million for the nine months ended September 30, 2015 and was primarily attributable to capital expenditures during the nine-month period of $182.9 million, including expenditures for facility development and expansions of $143.8 million primarily related to the aforementioned facility development projects, and $39.1 million for facility maintenance and information technology capital expenditures. In addition, cash flow used in investing activities during the nine months ended September 30, 2015 included $34.5 million of capitalized lease payments related to the 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 during the nine months ended September 30, 2015 also included $13.8 million related to the aforementioned acquisition of four community corrections facilities in August 2015.

Our cash flow used in investing activities was $141.5 million for the nine months ended September 30, 2014 and was primarily attributable to capital expenditures during the nine-month period of $78.7 million, including expenditures for facility development and expansions of $47.2 million, and $31.5 million for facility maintenance and information technology capital expenditures. In addition, cash flow used in investing activities during the nine months ended September 30, 2014 included a $70.0 million payment to the lessor related to the South Texas Family Residential Center, reported in accordance with ASC 840-40-55. In a related transaction, our customer agreed to pay $70.0 million to us in two $35.0 million installments in the fourth quarter of 2014. Cash flow used in investing activities for the nine months ended September 30, 2014 was partially offset by decreases in restricted cash and other assets.

**Financing Activities**

Cash flow used in financing activities was $76.1 million for the nine months ended September 30, 2015 and was primarily attributable to dividend payments of $187.5 million. Additionally, cash flow used in financing activities included $9.5 million for the purchase and retirement of common stock that was issued in connection with equity-based compensation. Cash flow used in financing activities for the nine months ended September 30, 2015 also included $4.6 million for the payment of debt issuance and other refinancing costs associated with the aforementioned refinancing transactions. In addition, cash flow used in financing activities during the nine months ended September 30, 2015 included $3.2 million of lease payments associated with the financing components of the lease related to the South Texas Family Residential Center. These payments were partially offset by $120.0 million of net proceeds from issuance of debt and principal repayments under our revolving credit facility during the nine months ended September 30, 2015, as well as the cash flows associated with exercising stock options, including the related income tax benefit of equity compensation, totaling $8.1 million.

Cash flow used in financing activities was $136.3 million for the nine months ended September 30, 2014 and was primarily attributable to dividend payments of $174.7 million. Additionally, cash flow used in financing activities included $3.1 million for the purchase and retirement of common stock that was issued in connection with equity-based compensation. These payments were partially offset by $35.0 million of net proceeds under our revolving credit facility, as well as the cash flows associated with exercising stock options, including the related income tax benefit of equity compensation, totaling $6.6 million.

**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.

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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 and nine months ended September 30, 2015 and 2014 is as follows (in thousands):

| | For the Three Months Ended September 30, | |
|---|---|---|
| **FUNDS FROM OPERATIONS:** | **2015** | 2014 |
| Net income | **$ 50,676** | $ 57,546 |
| Depreciation of real estate assets | **22,577** | 21,412 |
| Funds From Operations | **73,253** | 78,958 |
| Expenses associated with debt refinancing transactions, net of taxes | **698** | |
| Expenses associated with mergers and acquisitions, net of taxes | **1,653** | |
| Normalized Funds From Operations | **$ 75,604** | $ 78,958 |

| | For the Nine Months Ended September 30, | |
|---|---|---|
| **FUNDS FROM OPERATIONS:** | **2015** | 2014 |
| Net income | **$ 173,256** | $ 165,016 |
| Depreciation of real estate assets | **66,024** | 63,920 |
| Impairment of real estate assets, net of taxes | | 2,235 |
| Funds From Operations | **239,280** | 231,171 |
| Expenses associated with debt refinancing transactions, net of taxes | **698** | |
| Expenses associated with mergers and acquisitions, net of taxes | **1,653** | |
| Goodwill and other impairments, net of taxes | **955** | |

| | | |
|---|---|---|
| Normalized Funds From Operations | **$ 242,586** | $ 231,171 |

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**Contractual Obligations**

The following schedule summarizes our contractual cash obligations by the indicated period as of September 30, 2015 (in thousands):

| | Payments Due By Year Ended December 31, | | | | | | |
|---|---|---|---|---|---|---|---|
| | 2015 (remainder) | 2016 | 2017 | 2018 | 2019 | Thereafter | Total |
| Long-term debt | $ | $ | $ | $ | $ | $ 1,320,000 | $ 1,320,000 |
| Interest on senior notes | 14,797 | 42,788 | 42,094 | 42,094 | 42,094 | 100,859 | 284,726 |
| Contractual facility developments and other commitments | 10,057 | 248 | | | | | 10,305 |
| South Texas Family Residential Center | 26,954 | 92,056 | 73,412 | 53,733 | | | 246,155 |
| Operating leases | 401 | 520 | 531 | 541 | 552 | 1,428 | 3,973 |
| Total contractual cash obligations | $ 52,209 | $ 135,612 | $ 116,037 | $ 96,368 | $ 42,646 | $ 1,422,287 | $ 1,865,159 |

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 $14.1 million of letters of credit outstanding at September 30, 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 nine months ended September 30, 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.

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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 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 and nine months ended September 30, 2015, our interest expense, net of amounts capitalized, would have been increased or decreased by $1.6 million and $4.6 million, respectively.

As of September 30, 2015, 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

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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.

Except as set forth below, 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.

***Tax Liabilities and Attributes Inherited in Connection with Acquisitions.***

From time to time we may acquire other corporations or entities and, in connection with such acquisitions, we may succeed to the historic tax attributes and liabilities of such entities. For example, in order to qualify as a REIT, at the end of any taxable year, we must not have any earnings and profits accumulated in a non-REIT year. As a result, if we acquire a C-corporation in certain transactions, we must distribute the corporation s earnings and profits accumulated prior to the acquisition before the end of the taxable year in which we acquire the C-corporation. We also could be required to pay the acquired entity s unpaid taxes even though such liabilities arose prior to the time we acquired the entity. Prior to our acquisition of Avalon, it was a C-corporation, and our acquisition of Avalon raises each of the issues described above.

### 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.

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**ITEM 5. OTHER INFORMATION.**
None.

**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: November 5, 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