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The Market for Prisoners: Business, Crime and Punishment in the “American Dream”

With so many of our citizens in prison compared with the rest of the world, there are only two possibilities: Either we are home to the most evil people on earth or we are doing something different—and vastly counterproductive.

—Senator Jim Webb (Virginia, Democrat)¹

In 2010, Corrections Corporation of America (CCA), the largest private prison operator in the world, was considering expansion options. The publicly-held firm, which reported revenue of \$1.6 billion in 2008, operated 60 facilities with 65,000 beds across 19 U.S. states. The company had grown rapidly during the 1990s and 2000s as U.S. states and the federal government, struggling to keep up with the country's growing prison population, turned to companies like CCA to house their offenders. In 2009 the U.S., which comprised 4.6% of the global population but accounted for 22% of the incarcerated population,² had the highest imprisonment rate in the world—1% of the adult population was incarcerated—and the largest adult prison population: more than 2 million offenders were incarcerated.³ Federal and state governments spent \$68.7 billion in direct expenditures for the corrections system in 2006 and had funded average cost increases of 6% annually for the previous 10 years.⁴

Despite CCA's rapid growth and that of its main competitor, the GEO Group (they enjoyed a combined market share of 75% of the country's private prisons), there were some ominous signs in the U.S. market. The company's largest customers—federal and state governments—were under economic pressure to lower incarceration costs and reduce prison overcrowding which could jeopardize CCA contracts. Indeed, many states were under court order to reduce overcrowding and were turning to early release options rather than incurring the expense of building new prisons or hiring private prison companies. Though there was strong demand for maximum-security beds, many states refused to award operating contracts to private companies at that level; rather, private companies were restricted to the medium- and minimum-security markets where states could turn to other sentencing options such as parole, probation or home detention. Of the 415 private prisons operating in 2005, 2% were maximum-security, 10% medium-security and 88% minimum-security facilities.⁵ (See **Appendix** for a description of prison security levels.)

Professor Rafael M. Di Tella and Senior Researcher Laura Winig, Global Research Group, prepared this case. This case was developed from published sources. HBS cases are developed solely as the basis for class discussion. Cases are not intended to serve as endorsements, sources of primary data, or illustrations of effective or ineffective management.

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Analysts noted that unlike its chief competitor, CCA had not sought to expand internationally, causing some to speculate that CCA was considering expansion into the European market, where incarceration rates were also trending upwards.

History of Crime and Punishment in the U.S.

Prior to the late 18th century, the U.S. (and Europe) primarily used physical punishment, rather than confinement, to punish convicted criminals, converting to an imprisonment-based system by the mid-19th century.⁶ Early in the twentieth century, a movement to rehabilitate offenders took hold and prisons came to be seen as more than places to mete out punishment; some envisioned them as institutions capable of transforming offenders into law-abiding citizens. Parole release and probation supervision were developed to support the emerging paradigm. Medical and social-psychological experts designed treatment programs, and judges gave offenders indeterminate sentences that allowed their length of incarceration to be tailored to each offender's progress toward rehabilitation.⁷

By the mid 1950s, the public had grown concerned about increases in the crime rate and, more importantly, the perception that criminal recidivism rates were too high: 62% of offenders released from prison were re-arrested and re-convicted after release.⁸ As a result, public faith in rehabilitation was fading; even prison officials acknowledged their own ineffectiveness in rehabilitating offenders: "If we rehabilitate anybody here, it's by accident," said Ralph Eidson the warden of the Missouri State Penitentiary, the site of a violent 1954 prison riot.⁹ These coincided with a post-war economic expansion and an increasingly visible role of religious social values in political life (Congress added "Under God" to the Pledge of Allegiance in the 1950s).

A "youth culture" emerged in the 1960s, as 71 million children of the 1950's baby boom became young adults, challenging the establishment and engaging in recreational drug use. Protest and social rebellion became fashionable. From the mid-1960s to the 1970s, both the U.S. and Europe experienced steep rises in crime and politicians began to focus their rhetoric on fighting crime. For example, from 1963 to 1973 the U.S. murder rate doubled from 4.5 per 100,000 citizens to 9.1, while assaults rose from 91 to 194, and robbery climbed from 62 to 178 per 100,000. Republican presidential candidate Richard Nixon made crime a major theme of his 1968 campaign, implying that the criminal justice system and corrections had weakened due to an overreliance on rehabilitation, which, he asserted, did little to deter crime.¹⁰

Some attributed the rising crime rate to the increase in drug use. In 1969, a study linked crime and drug addiction after psychiatrist Robert DuPont found that 44% of inmates in the D.C. jail system tested positive for heroin.^a In June 1971, President Richard Nixon declared "war" on drugs, naming drug abuse "public enemy number one in the United States".¹¹ At the same time, the 1970s saw a dramatic shift away from rehabilitation and toward punishment. An influential 1974 article by Robert Martinson, "What Works? Questions and Answers about Prison Reform," was credited with contributing to the demise of rehabilitation. Martinson reviewed 231 studies of prison rehabilitation programs and concluded that offender treatment was largely ineffective. His findings were widely reported by the national press, frequently under the headline, "Nothing Works!"¹²

Federal and state government funding was increasingly directed away from rehabilitation into crime prevention and policing. Because of the controversy, in 1976 the National Academy of Sciences appointed a panel to re-evaluate the studies upon which Martinson's article was based.¹³ After

^a In 1970, DuPont began to administer a methadone program in Washington D.C. and a year later, burglaries in D.C. dropped by 41%. Methadone was a synthetic opioid used in the treatment of opioid dependence.

acknowledging errors and including new studies Martinson recanted his findings in 1979, but the debate seemed to have moved on.¹⁴ One researcher wrote that Martinson's original paper had "wiped out the political will to experiment with alternative approaches to crime prevention."¹⁵

1984 Sentencing Reform Act and Mandatory Minimum Sentences

Retribution gradually became the explicit basis for a move toward harsher punishment. For example, in 1976 Governor Jerry Brown signed the Determinate Sentencing Law, which made retribution the sole objective of California's sentencing system: "The Legislature finds and declares that the purpose of imprisonment for crime is punishment" (California Penal Code 1170). After evaluating the federal sentencing system Congress concluded the system "lacked the certainty necessary to inspire public confidence."¹⁶ Congress sought to reduce sentencing disparities and impose sentences that "accurately reflect the seriousness of the offense" by enacting the Sentencing Reform Act of 1984 (SRA).¹⁷ Congress specifically rejected the notion of rehabilitation as a primary sentencing objective. Instead, the SRA stated that punishment should serve "retributive, educational, deterrent, and incapacitative goals."¹⁸ The resulting guidelines resembled a grid, covering a range of sentences, expressed in months, for each type of crime.

The notion of mandatory minimum sentences drew widespread public support and as the war against drugs raged, President Ronald Reagan signed The Anti-Drug Abuse Act in 1986, which created mandatory minimum penalties for drug offenses (possession of one kilogram of heroin or five kilograms of cocaine became punishable by at least 10 years in prison, for example).¹⁹

The U.S. incarceration rate began to rise and activists, who had not given up on rehabilitation, became more vocal in their support of new research into effective rehabilitation programs. In 1988, researchers published a survey of over 200 studies on rehabilitation methods concluding: "Successful rehabilitation of offenders had been accomplished quite well . . . reductions in recidivism, sometimes as substantial as 80 percent, had been achieved in a considerable number of well-controlled studies."²⁰ But others disagreed: in 1989 the U.S. Supreme Court upheld federal sentencing guidelines that removed rehabilitation from serious consideration when sentencing offenders. The Court opinion noted that "rehabilitation was an unattainable goal in most cases and that the efforts of the criminal justice system to achieve rehabilitation of offenders had failed."²¹ By the early 2000s Congress concluded that the SRA was unsuccessful, as demonstrated by the frequency with which judges passed sentences that fell below the SRA's minimum guidelines.²² By 2001, only 63.9% of defendants were sentenced within the guideline range. These statistics were used by politicians to suggest that judges tended towards leniency, since upward departures from the guidelines were rare.²³ Members of Congress recognized that getting "tough on crime," a popular stance with the public, was crucial to getting them re-elected. The Protect Act of 2003 eliminated trial judges' discretion to deviate from congressionally-mandated sentences imposed by the SRA.²⁴

Juvenile Justice

In the late 1980s and early 1990s, juvenile crime rates skyrocketed and politicians and the public feared they were being besieged by "super-predators"—juveniles who repeatedly committed violent offenses. In response, 39 states began to try teens as adults and to send convicted youths to adult prisons. A report by Human Rights Watch revealed that some were given sentences of life without the possibility of parole even though the majority of youth sentenced to life without parole (59%) were first-time offenders.²⁵ No juveniles served sentences of life without the possibility of parole anywhere else in the world.²⁶

The Death Penalty

In 2009, 35 U.S. states, the federal government and the military allowed those convicted of certain felonies (primarily homicide) to be sentenced to death; all used lethal injection as their primary method. Since 1977, 1,193 men and women had been executed in the U.S., peaking in 1999 with 98. Since 1976, 22 people had been executed for crimes committed as juveniles, but in 2005, the U.S. Supreme Court struck down the death penalty for juveniles. In 2008, 3,207 persons were being held on death row and 37 were executed (see **Exhibit 1** for death sentences and execution figures).²⁷

A 2006 Gallup Poll found that 65% of the public supported the death penalty. Indeed, a victim's family members, the condemned inmate's friends and relatives as well as journalists, were allowed to witness executions, usually through a glass window from an adjoining room. While some activists decried the practice, others declared it a "right" to attend. "I saw what I wanted to see. I'm glad. He was awful. He deserved to die," said a Marine gunnery sergeant who witnessed the execution of his sister's killer in California in 2005.²⁸

Of the states that had the death penalty, all but one required law-enforcement and media officials to witness the executions. Of those, 16 states also required that an average of six civilians (who might have little or no connection to the offender) also be present. States sometimes had to recruit volunteers; one volunteer to the 2000 execution of a convicted murderer in Arizona, noted his reason for requesting permission to witness the execution: "I had a brother in Tennessee who was murdered. The guy who did it was allowed to plea-bargain."²⁹

Three Strikes Laws

Habitual offender laws (also known as three strikes laws), introduced in the 1990s, were statutes enacted by U.S. states which mandated specific and often lengthy or lifelong prison sentences for those convicted of felonies—mostly, but not always, violent or serious crimes^b—on three or more separate occasions. While the practice of imposing long prison sentences on repeat offenders dated back to the 1800s, the sentences were not mandatory. In 1993, Washington became the first state to pass a habitual offender law that called for mandatory life imprisonment after a third felony conviction.³⁰ There were many legal challenges to habitual offender laws; activists expressed outrage when offenders were given lengthy sentences if their "third strike" was a seemingly petty crime that was nevertheless classified as a felony (Gary Ewing received a 50-years-to-life sentence for shoplifting videotapes and a California man was sentenced to 25 years for stealing three golf clubs).³¹ Nevertheless, in 2003, the U.S. Supreme Court found by a 5–4 majority that habitual offender sentences did not violate the Eighth Amendment of the U.S. Constitution, which prohibited "cruel and unusual punishment," and in doing so, upheld three strikes laws. By 2004, the federal government, along with 26 states, had passed three strikes laws.

Gun Laws

The second amendment of the U.S. Constitution granted Americans the right to "bear arms". Though some countries, such as Spain, licensed their citizens to carry guns for hunting and others, such as Switzerland, allowed citizens to own and store guns in their homes for personal safety purposes, the U.S. was unusual in that citizens could legally purchase and carry (with a permit) handguns, rifles and even semi-automatic firearms (assault weapons). In 2009, there were over 283 million guns owned by civilians in the U.S.—a rate of 97 guns per 100 citizens.³² In 2006, there were

^b Violent or serious offenses included murder, robbery or burglary of a residence in which a deadly or dangerous weapon was used, rape and other sex offenses.

10,177 gun-related murders in the U.S. (in Europe, such murders were rare: 194 in Germany, 60 in Spain and 18 in Austria in 2006).³³ Though many in law enforcement believed that the proliferation of guns contributed to the violent crime rate, academic researcher and author John Lott (*More Guns Less Crime*) concluded that violent crime rates dropped as states loosened their restrictions on carrying concealed weapons. While some disputed the findings, the conclusion that permissive gun laws allowed law-abiding citizens to have access to a means of defending themselves seemed appealing to some sectors of the media and general public.³⁴

Punishment in the U.S.

The U.S. incarceration rate rose from 139 per 100,000 residents in 1980 to 748 per 100,000 in 2008—the highest rate in the world; Russia had the second highest rate with 618 per 100,000 residents (see **Exhibits 2a** and **2b** for incarceration rates and totals by country).³⁵ Of those, 52% were imprisoned for violent offenses, 18% for property-related crimes, 21% for possession or dealing drugs and 9% for public order offenses (see **Exhibit 3** for trends by year). The rise in the incarceration rate—considered by some a result of mandated prison sentence lengths—came even as crime rates had declined by 25% from 1988 to 2008.³⁶

Life prison sentences increased by 83% between 1992 and 2003, but the increases affected racial groups disproportionately: In 1995, a well known report by The Sentencing Project, an advocacy group that emphasized the possibility of rehabilitating prisoners, reported that nearly 1 in 3 black men in their 20s in the U.S. was behind bars or elsewhere in the justice system, up from 25% in 1990 (see **Exhibits 4a** and **4b**). Some experts attributed the disparity to the sharp increase in offenders serving sentences for non-violent, drug-related crimes. “Blacks began to dominate American prison populations in the 1990s, as the drug war reached full implementation,” said Loic Waquant, a French sociologist specializing in racial inequality who had also argued that American ghettos and prisons had become a single interconnected system for segregating and controlling the poor” and that “U.S. sociology is now tied and party to the ongoing construction of the neoliberal state” and its “punitive management of the poor, on and off the street.”³⁷

Alternatives to Incarceration: Parole, Probation and Home Detention

Joan Petersilia, former president of the American Society of Criminology, noted that society had a social and financial interest in broadening its ability to offer judges alternatives to incarceration: “Drug clinics do more to rehabilitate drug addicts than prison; job training does more to reduce recidivism than jails,” she said.³⁸ U.S. states and the federal government had long used alternatives such as parole, probation and home detention to reduce prison sentences or transition offenders from prison back into the community.

Parole was the supervised release of a prisoner before completion of their sentence; an offender served the remainder of their sentence out of prison. Probation was a judicial reprieve to suspend an offender’s sentence designed to reduce the likelihood that an offender would commit a new offense. Rather than being incarcerated, convicted offenders were supervised in the community by probation/parole officers for the length of their sentences. In the case of probation, the amount and type of supervision was determined by the risk (based on prior convictions, the nature of the crime, etc.) that the probationer would return to lawbreaking. Those who violated their probation terms^c could be sent to prison to serve the remainder of their sentence.

^c Terms often included requirements such as maintaining employment or attending job training, seeking counseling, performing community service, etc.

It was less expensive to monitor offenders in community programs such as probation and parole than to incarcerate them. A survey of 34 states found that states spent an average of \$29,000 a year on prisoners, compared with \$1,250 on probationers and \$2,750 on parolees. The survey found that despite more spending on imprisonment, recidivism rates remained largely unchanged.³⁹ In 1980, 17% of offenders were sentenced to prison, 61% were sentenced to probation and 12% were released on parole; by 2008, 21% were imprisoned, 58% received probation and 11% were released on parole.⁴⁰

Home detention and electronic monitoring Home detention, often combined with electronic monitoring (EM), was a form of probation or parole in which the offender was remotely supervised. EM was used to detain offenders by confining them to specific locations—often their own homes. Offenders were required to wear a transmitter, usually in the form of an ankle bracelet, which emitted a signal to a receiver unit which was forwarded to a computer at a monitoring center. Any signal interruptions or tampering could be detected and reported to authorities. EM was most often used after a period of incarceration as a condition of early release via parole. In this case, EM’s objective was to re-integrate and rehabilitate offenders by providing a gradual transition back into the community.

Upon EM’s introduction in the 1980s, opponents voiced legal and moral concerns, noting that EM might jeopardize offenders’ constitutional right to privacy. Proponents, however, noted that the method could help protect offenders from the corrupting and stigmatizing effects of institutional confinement while suppressing criminal behavior. Nevertheless, EM gained spotty public and penal system support until the 2000s, when economic concerns and improvements in EM technology increased its popularity. By then, global positioning system (GPS) technology could be used to continuously track offenders’ movements 24 hours a day in real time. EM was considered a less severe punishment than imprisonment but more restrictive than traditional probation. Because EM kept (or re-introduced) offenders in the community through employment and social inclusion, some experts believed it lowered the recidivism rate.⁴¹

EM had the potential to reduce the prison population if used as an alternative to incarceration rather than as an additional punishment. In the U.S., however, EM was generally not used to replace incarceration and instead, resulted in net widening.^d In 2005, Florida passed a law that mandated lifelong electronic monitoring for some sex offenders released from prison.⁴² However, the little research available into its effectiveness revealed conflicting findings. A 2005 study found “applications of electronic monitoring as a tool for reducing crime are not supported by existing data” and EM “does not appear to ensure great community protection.”⁴³ On the other hand, a study of Florida offenders found that EM significantly reduced the likelihood of reoffending. The effect of EM was equally strong for violent, property, and drug offenders.⁴⁴

The Private Prison Industry

History

In the 1980s, an increasing demand for prison beds paired with states’ fiscal difficulties and public frustration over the perceived failure of the penal system to rehabilitate offenders, led private industry to propose a novel solution: the privatization of prison operations. Federal and state governments had a long history of purchasing prison services, such as medical care, food preparation and transportation, from private firms. In the 1980s, though, private businesses saw an opportunity

^d Net widening was a term most commonly used to describe a phenomenon whereby a program, conceived as an alternative to incarceration to divert prisoners away from institutional placement instead brought more offenders into the corrections system who previously would not have entered.

for expansion, and consequently, requested permission to bid on contracts for the management and operation of entire prisons.

The industry was officially established in 1984 when CCA was awarded a contract to take over the management of a prison facility from the state of Tennessee. In 1987, the number of offenders incarcerated in privately operated correctional facilities was 3,100; by 1998 the number had risen to 132,000.⁴⁵ By 2000, there were 158 private correctional facilities in the U.S., still less than 5% (by inmates; 7% by bed capacity) of the U.S. "market" for prisons. An additional 26 prisons were operated outside the U.S., primarily in the United Kingdom and Australia.⁴⁶

Private prisons operated much the same—and as well as—publicly operated prisons according to a study funded by the Bureau of Justice Assistance.⁴⁷ It concluded that the average savings from privatization was about 1%, mostly due to lower labor costs.⁴⁸ (The average spent on corrections by states without private prisons was \$493 million so potential savings amounted to \$5 million annually.)⁴⁹ In addition to cost savings due to lower operational costs, the presence of private prisons within a state's corrections system encouraged officials in its public facilities to adopt cost-saving strategies in staff deployment and purchasing policies. Private firms were able to build new prison facilities faster and less expensively than the public sector, allowing firms to meet market demand in a timely fashion.⁵⁰ Although comparisons were not always easy, in 2009, the cost to house an inmate in a public, medium-security facility was \$44.35 a day, compared with \$49 for a bed in a CCA facility and \$44.83 in a GEO Group prison.⁵¹ The daily cost to house an inmate in a maximum-security state prison was \$63.70, compared with \$64.50 in a CCA prison, although there were large variations across states.⁵² In Colorado, for example, the state paid \$77 per day to house a prisoner publicly, \$52 to incarcerate with private companies.⁵³ In 2009, 26 states cut funding for corrections; nevertheless, both CCA and GEO projected revenue and profit growth for 2010.⁵⁴ (See **Exhibit 5** for an index of CCA and GEO share prices.)

The idea of privatizing prisons was met with opposition from many within the corrections system, largely over concerns about inadequate training and staffing levels within private facilities. Indeed, lower staff levels and training at private facilities had been linked to increases in prison violence and escapes. Assaults on guards by inmates were 49% more frequent in private prisons than in government-run prisons and assaults on fellow inmates were 65% more frequent in private prisons.⁵⁵

The argument for privatization stressed cost reduction, whereas the arguments against it focused on standards of care, and the question of whether a market economy for prisons might lead to a market demand for prisoners that encouraged profiteering. Some noted that state government-run prisons had long profited by incarcerating offenders, citing prisoners' telephone calls as an example. The telecommunication industry deregulation of the mid-1980's led to sharp price increases for collect telephone calls placed by prisoners to their families. "Competition in the prison telephone industry has driven prices up. Armed with a uniquely effective monopoly source power, county, state, federal and private prison officials have entered into what amount to profit-sharing agreements with telephone service providers, awarding exclusive service rights in exchange for cash or percentage payments, back into correctional authority and/or state general funds," noted academic researcher Steven J. Jackson.⁵⁶ While consumer prices for long-distance telephone calls declined after deregulation (by 80% between 1984 and 2005), companies which successfully won prison telephone contracts were those which offered the highest prices and consequently the largest commissions to the facilities.⁵⁷ In 2000, such commission rates ranged from 44% in California to 60% in New York; California, New York and the Federal Bureau of Prisons each earned in excess of \$20 million in prison telephone revenues in 2000. That year, Citizens United for Rehabilitation of Errants (CURE), a non-profit, activist organization which advocated for offenders' rights, launched The Campaign to Promote Equitable Telephone Charges (ETC Campaign). Through legislative activity, litigation and

public awareness efforts, ETC reported that many states had significantly lowered rates and/or commissions by 2010.⁵⁸

*Corrections Corporation of America*⁵⁹

In 2009, CCA was the nation’s largest owner and operator of privatized correctional and detention facilities and the fifth largest prison operator in the U.S. behind only the federal government and some states. CCA was compensated for operating and managing prisons and correctional facilities at an inmate per diem rate based on actual or minimum guaranteed occupancy levels. In its 2008 filing with the Securities and Exchange Commission, the company noted, “The significant expansion of the prison population in the United States has led to overcrowding in the federal and state prison systems, providing us with opportunities for growth.” Nevertheless, CCA noted that governments were under budgetary constraints which resulted in pressure to lower CCA’s per diem rates or forego rate increases. The report showed that the company benefitted from significant economies of scale to lower operating costs per inmate as occupancy rates increased, noting:

We believe the long-term trends favor an increase in the outsourcing of correctional management services. In 2007, at least 19 states and the federal prison system reported operating at or above their highest capacity measure. The federal prison system was operating at 36% above capacity at December 31, 2007.⁶⁰ Based on this and our own proprietary research, we do not currently believe that our customers will be able to develop the capacity needed to accommodate their demand for prison beds.⁶¹

Nevertheless, CCA was subject to fluctuations in occupancy levels, given that a considerable amount of its costs were fixed. The report explained:

Growth depends on a number of factors we cannot control, including crime rates and sentencing patterns in various jurisdictions and acceptance of privatization. The demand for our facilities and services could be adversely affected by the relaxation of enforcement efforts, leniency in conviction or parole standards and sentencing practices or through the decriminalization of certain activities that are currently proscribed by our criminal laws. For instance, any changes with respect to drugs and controlled substances or illegal immigration could affect the number of persons arrested, convicted, and sentenced, thereby potentially reducing demand for correctional facilities to house them. Legislation has been proposed in numerous jurisdictions that could lower minimum sentences for some non-violent crimes and make more inmates eligible for early release based on good behavior. Also, sentencing alternatives under consideration could put some offenders on probation with electronic monitoring who would otherwise be incarcerated. Similarly, reductions in crime rates could lead to reductions in arrests, convictions and sentences requiring incarceration at correctional facilities.⁶²

CCA served federal (\$629 million or 39% of total CCA revenue in 2008), state (\$839, or 52% of total 2008 revenue) and local correctional authorities. Already a key market player (the company managed nearly 50% of all beds under contract with private operators of correctional facilities in the U.S.) it significantly expanded its capacity in 2008 and 2009, adding 4,000 new beds. Its contracts typically ran for terms of three to five years though most had clauses that allowed government agencies to terminate their agreements—without cause—at any time, a standard industry practice.

In addition to custodial care, CCA provided rehabilitative and educational programs at its facilities, including vocational training, life skills transition planning programs, financial responsibility training, parenting training, faith-based and religious programs as well as cognitive

behavioral programs aimed at changing the anti-social attitudes of offenders. CCA believed these programs helped reduce recidivism.

CCA considered itself to have “pioneered modern-day private prisons” and claimed as its accomplishments, being the first company to design, build, and operate a private prison, and the first company to manage a private maximum-security facility under a direct contract with the federal government. CCA hired professional prison staff and its wardens had an average of 24 years of corrections experience. Nearly 92% of the company’s facilities were accredited by the American Correctional Association, an independent organization of corrections industry professionals—a figure that paralleled that achieved by government-operated prisons.

CCA acknowledged that it carried significant debt—\$1.1 billion at the end of 2008—as a result of its rapid expansion, putting additional pressure on the company to maintain (and increase) occupancy levels. Indeed, even as CCA was finishing construction of facilities begun in 2008 and 2009, it had elected to postpone construction on new facilities “until we have greater clarity around the timing of future bed absorption by our customers.”⁶³

CCA’s 2008 operating margins increased to 30.4% compared with 29.4% for 2007, largely the result of the increase in the average compensated population. The company’s total facility management revenue increased by \$150.8 million, or 10.5%, during 2008 compared with 2007 resulting primarily from an increase in revenue of approximately \$78.5 million generated by an increase in the average daily compensated population during 2008. Approximately 64% of operating expenses consisted of salaries and benefits. (See **Exhibits 6, 7, 8, 9** and **10** for company financials.)

GEO Group

Founded in 1984, the GEO Group (formerly Wackenhut Corrections Corporation) employed 13,000 workers and operated 61 private minimum-, medium- and maximum-security corrections facilities with 60,000 beds. The Florida-based company began operations in the U.S. and through joint ventures with local companies, expanded internationally, first to Australia (1991) then to Canada, Cuba, South Africa (1999) and the United Kingdom (1994).

In 2004, GEO dissolved its U.K. joint venture and formed an independent subsidiary headquartered in England to support expansions efforts in the U.K., Ireland and continental Europe. Though its seven international facilities represented only 13% of GEO’s worldwide revenue in 2008 (\$129 million of \$1 billion), the company noted that the European market represented the second largest private correctional market in the world.⁶⁴ In 2009, GEO bid on design and construction of four, 3,000-bed prisons for an undisclosed European country and if awarded, expected construction to begin in 2010.

Growth and Future Trends

Analysts were optimistic about the future of the private prison industry, particularly in light of the annual increase in demand for prison beds.⁶⁵ States were actively working to reduce their own prison populations (some, like California, by court order due to overcrowding litigation; others to reduce costs: Colorado wanted to cut its prison population by 26%, or 6,000 inmates by 2011).⁶⁶ As a result, half of new inmates in 2009 were sent to private prisons, even though less than 9% of U.S. prison beds were privatized.⁶⁷

Though private prison firms recognized that there would be significant pressure on pricing as states expanded their focus from cutting costs within their own prisons to trimming contract costs with private firms, analysts believed that those companies that focused on their core competencies

would be best-positioned for growth. "Private prisons have built up a lot of ancillary services over the years that can now be cut if their per-diems are cut, without too much damage to their bottom line," noted one analyst, who pointed out that private prisons maintained bargaining power, despite the budget crisis. "There are only so many nonviolent criminals that can be let out, and it isn't like states can run out and quickly build another prison."⁶⁸

One CCA analyst went further, noting that private prison investors were only rewarded if crime and recidivism flourished: "It takes time to bring inmate population levels up to where they cover costs . . . Low occupancy is a drag on profits . . . company earnings would be strong if CCA succeeded in ramping up population levels in its new facilities at an acceptable rate."⁶⁹ Both CCA and The GEO Group were contributors to the American Legislative Exchange Council (ALEC), a Washington, D.C.-based public policy organization that developed model legislation that supported tough-on-crime legislation. Indeed, both CCA and GEO served on ALEC's Criminal Justice Task Force, which played a major role in developing and supporting habitual offender and mandatory minimum sentencing laws.⁷⁰ Prison guard unions, however, also had incentive to keep prison populations high. For example, the California Correctional Peace Officers Association, a union of guards for California's state-run facilities, sponsored the state's habitual offender legislation—a position U.S. Supreme Court justice Anthony Kennedy called "sick;" Governor Schwarzenegger proposed privatizing all of California's prisons as a remedy to the union's power and rising salaries, which reached as high as \$100,000.⁷¹

Policies on the use of private prisons varied widely from state to state. Some imposed inmate population limits, operating rules or outright bans on private prisons. For example, Louisiana, New York and Illinois banned private prisons altogether. Others, such as Wisconsin, banned (or tried to ban) speculative private prison construction.⁷² CCA and GEO were the only two significant competitors in the U.S., largely because barriers to entry into the business were high as states were wary to experiment with new companies. "What public official would want to say, after a prison break, that he had picked an unproven company to run the facility, instead of one of the more experienced outfits?" noted one industry analyst.⁷³

Outside of the U.S., prison privatization had not yet taken hold; in countries that had begun to explore privatization, penetration rates ran from 17% in Australia to just 3% in South Africa.⁷⁴ Some countries that had previously embraced private prisons were reconsidering their support. In a landmark decision in November 2009, Israel's Supreme Court ruled that privately run prisons were unconstitutional. In the ruling, the presiding judge wrote: "We have reached the conclusion that the very transfer of the powers to administer a prison from the state . . . to the hands of private businessmen who operate for profit causes harsh and grave damage to the basic human rights of prisoners."⁷⁵ The judgment effectively overturned a 2004 law that had authorized construction of what was to be the country's first privately run prison.⁷⁶

Global Crime and Incarceration

People who committed nonviolent crimes served longer sentences in the U.S. than in other countries; U.S. burglars served an average of 16 months in prison compared with 5 months in Canada and 7 months in England, for example.⁷⁷ Indeed, countries with similar crime rates and laws and

^e The alleged practice involved for-profit prison companies building new prisons before they were awarded privatization contracts in order to lure state contract approval. In 2001, Wisconsin's joint budget committee recommended language to ban all future speculative prison construction in the state. Such anticipatory building dated back to at least 1997, when CCA built a 2,000-bed facility in California at a cost of \$80–\$100 million with no contract from the California Department of Corrections; a CCA official was quoted as saying, "If we build it, they will come."

similar public and political support for imprisonment still had far lower incarceration rates than the U.S. Democracy itself was cited by some researchers as an explanation for the high U.S. incarceration rate: most state court judges and prosecutors in the U.S. were elected and sensitive to a public that favored tough crime policies. In the rest of the world, it was argued, criminal justice professionals tended to be civil servants who were insulated from popular demands for tough sentencing.⁷⁸

Observers noted that nearly 75% of the world's countries experienced increases in their incarceration rates, a trend that was linked to the American experience or a "U.S.-led rise in penal harshness."⁷⁹ In the Netherlands, for example, a rapid increase in the prison population, beginning in the mid-1980s, was attributed to international pressure to "toughen up" the country's traditionally liberal approach to drug use, ostensibly attributed to the international war on drugs but also on the global trend to mete out harsher punishment to offenders.⁸⁰ Indeed, incarceration rates seemed to be higher in those countries that were often called "neo-liberal" or politically conservative with an ethos of individualism (examples included the U.S., the U.K., and Australia) and lower in "corporatist" countries (such as Germany, Italy, France, Sweden, Finland, Denmark and Norway).^f Some even argued that neo-liberalism was criminogenic (i.e., that it caused higher crime rates) because what was seen as the hallmarks of neo-liberal countries—namely individualism and inequality—reduced social cohesion, and excluded and marginalized many individuals, leading to alienation and crime.⁸¹ It was argued that in neo-liberal society, economic failure was seen as being the fault of the individual not of society. Likewise, crime was seen as the responsibility of the offending individual. Some even claimed that as societies moved in the direction of neo-liberalism, their punishment became harsher. For example, imprisonment rate in The Netherlands rose from 17 prisoners per 100,000 residents in 1975 to 123 in 2004.⁸²

Criminal Punishment in Europe

Though crime rates in many European countries such as Germany, the Netherlands, the U.K. and Norway, were similar to those in the U.S., incarceration rates were lower and alternative methods of punishment, such as EM, were more widely used. Hans-Joerg Albrecht, director of the Max Planck Institute for Foreign and International Criminal Law, noted a high level of "acceptance and integration of electronic monitoring into the systems of criminal sanctions" within Europe.⁸³ Electronic monitoring was first used in Europe in the early 1990s. By 2004, EM was considered (alongside community service and suspended sentences) a promising alternative to imprisonment and was hoped to reduce costs as well as to relieve overcrowding in European prisons.⁸⁴

In most countries, rehabilitation was an essential component the criminal justice systems; indeed, countries were required to comply with the Council of Europe's Minimum Standards of Community Sanctions which demanded that community sanctions be geared toward the goal of reintegration and personal development of an offender. Most countries "individualized" their rehabilitation programs (which included EM), adjusting the sanction to take into account the seriousness of the offender's crime, the victim's needs, rehabilitation and risk.⁸⁵

^f Some traced it back to American exceptionalism, the idea that the U.S. differed qualitatively for other developed nations because of its unique origins, historical evolution, and distinctive political and religious institutions that could be traced to the set of republican ideals on which it was founded, rather than on a common heritage or ethnicity. The "American spirit" was often credited to the opening of the frontier, where "rugged and untamed conditions gave birth to American national vitality." Though other nations such as Russia, Canada or Australia had long frontiers, pioneers had not had the same psychological and cultural impact. This notion had also impacted American foreign relations, where some insisted that the U.S. held a special place, representing the best hope for the defense of human progress. Critics argued that the U.S. was not the only country founded with republican ideals, and suggested that U.S. foreign policy has been motivated more by economic or military self-interest than a desire to spread these ideals. Source: New World Encyclopedia, definition of ethnocentrism, http://www.newworldencyclopedia.org/entry/Ethnocentrism#American_Exceptionalism, accessed December 2009.

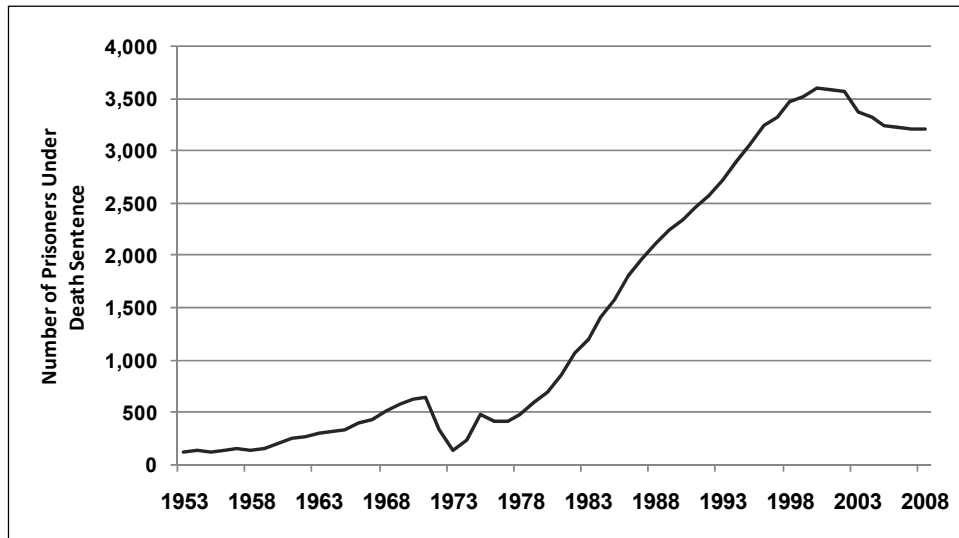
By 2010, European countries had emerged as prominent leaders in the use of EM technology as countries hoped the use of the technology would lead to a decline in incarceration rates. Research conducted in the Netherlands, Sweden, Belgium and England showed positive findings indicating that the technology could effectively be used to ensure compliance with release conditions.⁸⁶ Indeed, successful program completion rates of 80% to 90% were reported, including for higher-risk offenders generally not included in U.S. trials of EM. There was an emerging consensus across Europe that EM programs made a significant contribution to improving supervision practices and in working with individuals who would otherwise be regarded as too risky for community supervision.⁸⁷ It was also possible that substituting prison for EM might reduce recidivism, but convincing studies were lacking. One reason was that reasonable judicial systems sent different types of people to EM and to prison. Thus, a difference in recidivism rates for the two groups upon release could simply reflect the success of the system at the sentencing stage (selection), rather than a causal effect of EM on recidivism. Moreover, there was very limited evidence was available about the extent to which the introduction of EM might reduce prison populations.⁸⁸

There was limited private sector participation in EM in Europe. In the U.K., for example, EM was completely privatized but in other countries, private EM contractors merely served as equipment suppliers to governmental organizations. Experts were divided on the matter; some questioned whether offenders' privacy might be compromised under private sector supervision and others raised concerns that the private sector might apply a homogeneous approach to offenders' monitoring, potentially increasing the risk of escapes.⁸⁹

CCA's Future: Exporting the U.S. Private Prison System?

In contemplating CCA's growth and expansion options, CCA officials had to consider the state of the U.S. market as well as overseas opportunities. While U.S. state mandates to relieve prison overcrowding as well as increasing incarceration rates posed the possibility for continued U.S. expansion, perhaps the GEO Group's model of diversifying through international expansion should be considered? Though some countries resisted, or even banned, the entry of private prisons, activists in some European nations wondered if the American trend toward privatized prisons was an inevitable next step within their own penal systems. “The challenge is to assess how far the recipe for the U.S. mass incarceration is in embryo in European and other societies,” a scholar noted.⁹⁰

Exhibit 1 Number of Persons under Sentence of Death and Executed in the United States, 1953–2008



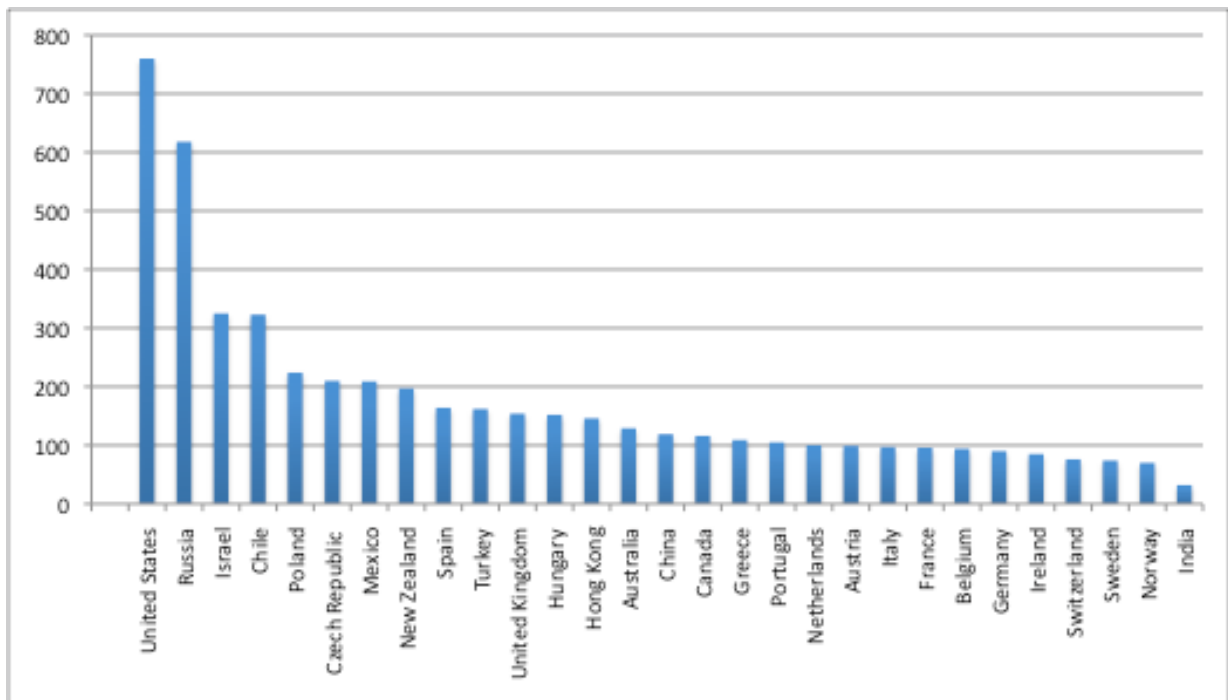
Source: Capital Punishment, 2007—Statistical Tables, December 2008, Bureau of Justice Statistics and Capital Punishment, 2008—Statistical Tables, December 2009, NCJ-228662, Bureau of Justice Statistics.

Exhibit 2a Prison Population Rates and Totals for Select Countries, 2008

Country	Prison Population Total (in '000s)	Global Rank	Total Crimes (in 000's)	Global Rank	Total Crimes per 100,000 People	Global Rank	Homicides per 100,000 (2006)
United States	2,311	1	11,877	1	8,000	8	5.62
China	1,566	2	n/a	n/a	n/a	n/a	n/a
Russia	876	3	2,952	5	2,100	31	n/a
India	376	5	1,765	10	200	59	2.82
Mexico	230	6	1,516	12	1,300	39	10.97
Turkey	117	12	286	32	400	54	4.06
Poland	85	16	1,404	14	3,300	23	1.28
United Kingdom	85	17	6,524	2	8,600	6	1.41
Spain	77	21	923	18	2,300	28	0.77
Germany	74	23	6,507	3	7,600	11	0.88
France	60	28	3,772	4	6,200	14	n/a
Italy	59	31	2,232	9	3,800	19	1.06
Chile	55	32	594	19	8,800	5	n/a
Canada	38	42	2,517	8	7,500	12	1.86
Australia	28	49	n/a	n/a	n/a	n/a	n/a
Israel	23	55	n/a	n/a	n/a	n/a	n/a
Czech Republic	22	56	372	27	3,800	18	1.33
Netherlands	16	63	1,423	13	8,000	9	0.97
Hungary	15	64	421	26	4,500	16	n/a
Greece	12	74	103	44	1,000	45	0.98
Portugal	11	79	218	35	3,400	21	2.15
Hong Kong	10	85	81	51	1,200	43	n/a
Belgium	10	87	973	17	n/a	n/a	n/a
New Zealand	9	91	427	25	10,600	2	1.14
Austria	8	92	552	22	n/a	n/a	0.73
Sweden	7	106	1,235	16	n/a	n/a	1.27
Switzerland	6	113	308	31	3,600	20	0.8
Ireland	4	125	81	50	2,000	32	1.59
Norway	3	132	330	29	7,200	13	0.71

Sources: Adapted from "Prison Brief—Highest to Lowest Rates," Entire World-Prison Population Totals and Entire World—Prison Population rates per 100,000 of the national population, World Prison Brief, International Centre for Prison Studies, King's College London, accessed December 2009, available <http://www.kcl.ac.uk/~TotalCrimesbyCountry/>; "Total Crimes by Country," NationMaster.com, accessed January 2010; Intentional homicide, completed, values and rates per 100,000 population. 2005–2006, The Tenth United Nations Survey of Crime Trends and Operations of Criminal Justice Systems (Tenth CTS, 2005–2006): <http://www.unodc.org/unodc/en/data-and-analysis/Tenth-CTS-annotated.html>, accessed January 2010.

Exhibit 2b Prison Population Rates (for Select Countries) Per 100,000 Residents, 2008



Source: Adapted from “Prison Brief—Highest to Lowest Rates,” Entire World-Prison Population Totals and Entire World—Prison Population rates per 100,000 of the national population, World Prison Brief, International Centre for Prison Studies, King’s College London, available http://www.kcl.ac.uk/depsta/law/research/icps/worldbrief/wpb_stats.php?area=all&category=wb_poptotal, accessed December 2009.

Exhibit 3 Percent of Persons in Custody of Correctional Authorities by Most Serious Offense, 1996–2006

	Violent	Property	Drug	Public Order
1996	47%	23%	21%	9%
1997	47%	22%	21%	10%
1998	48%	21%	21%	10%
1999	48%	21%	21%	10%
2000	49%	20%	21%	10%
2001	49%	19%	20%	11%
2002	51%	21%	22%	7%
2003	52%	21%	20%	7%
2004	52%	21%	20%	7%
2005	53%	19%	20%	8%
2006	52%	18%	21%	9%

Source: Adapted from Correctional Populations in the United States, 1997, and Prisoners in 2008, Bureau of Justice Statistics.

Note: **Violent offenses** include murder, negligent and non-negligent manslaughter, rape, sexual assault, robbery, assault, extortion, intimidation, criminal endangerment, and other violent offenses. **Property offenses** include burglary, larceny, motor vehicle theft, fraud, possession and selling of stolen property, destruction of property, trespassing, vandalism, criminal tampering, and other property offenses. **Drug offenses** include possession, manufacturing, trafficking, and other drug offenses. **Public-order offenses** include weapons, drunk driving, escape/flight to avoid prosecution, court offenses, obstruction, commercialized vice, morals and decency charges, liquor law violations, and other public-order offenses.

Exhibit 4a Total Number of U.S. Prisoners by Race, 2000 to 2008

	White	Black	Hispanic	Total
2000	471,000	610,000	217,000	1,321,000
2001	485,000	622,000	210,000	1,345,000
2002	472,000	623,000	250,000	1,380,000
2003	493,000	621,000	268,000	1,409,000
2004	492,000	583,000	276,000	1,434,000
2005	506,000	577,000	295,000	1,461,000
2006	527,000	563,000	308,000	1,502,000
2007	522,000	586,000	319,000	1,533,000
2008	528,000	592,000	313,000	1,540,000

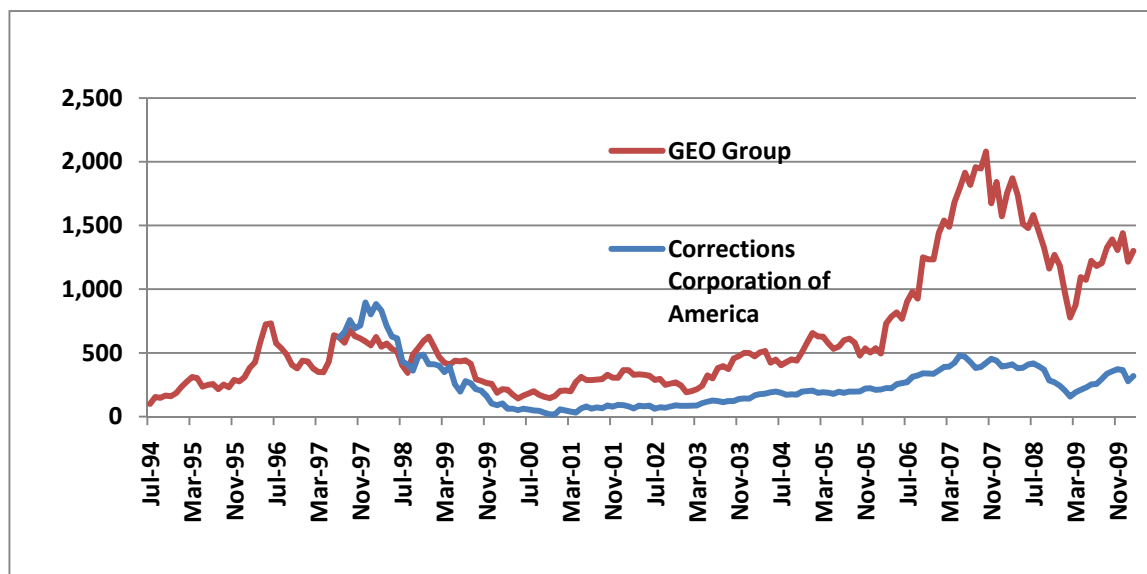
Source: Adapted from Prisoners in 2008, Bureau of Justice Statistics.

Exhibit 4b U.S. Incarceration Rate, 2000 to 2008 (per 100,000 U.S. residents)

	White	Black	Hispanic
2000	449	3,457	1,229
2001	462	3,535	1,177
2002	450	3,437	1,176
2003	465	3,405	1,231
2004	463	3,218	1,220
2005	471	3,145	1,244
2006	487	3,042	1,261
2007	481	3,138	1,259
2008	487	3,161	1,200

Source: Adapted from Prisoners in 2008, Bureau of Justice Statistics.

Exhibit 5 Stock index, GEO Group and CCA, from IPO through 2009



Source: Thomson ONE Banker, accessed March 2010.

Exhibit 6 Corrections Corporation of America, Selected Operating Financials, 2007 and 2008

	For the Years Ended December 31,	
	2008	2007
Revenue per compensated man-day	\$57.07	\$54.62
Operating expenses per compensated man-day:		
Fixed expense	29.68	28.54
Variable expense	10.04	10.00
Total	39.72	38.54
Operating margin per compensated man-day	\$17.35	\$16.08
Operating margin	30%	29%
Average compensated occupancy	96%	98%
Average compensated population	75,986	72,050

Source: Corrections Corporation of America, 2008 10-K filing.

Exhibit 7 Corrections Corporation of America, Income Statement, Fiscal Year 2006 to 2008, in millions

INCOME STATEMENT	For the Fiscal Period Ending December 31,		
	2006	2007	2008
Revenue	1,303.4	1,456.3	1,598.9
Cost Of Goods Sold	947.9	1,036.1	1,124.0
Gross Profit	355.4	420.2	474.9
Selling General & Admin Expense	63.6	74.4	78.6
Depreciation & Amortization	67.3	78.5	90.8
Other Operating Expense, Total	130.9	152.9	169.4
Operating Income	224.5	267.3	305.5
Interest Expense	(67.9)	(64.5)	(62.8)
Interest and Investment Income	9.1	10.7	3.4
Net Interest Expense	(58.8)	(53.8)	(59.4)
Income/(Loss) from Affiliates	0.1	0.2	0.2
Other Non-Operating Income (Expense)	0.2	0.1	(0.5)
EBT Excluding Unusual Items	166.0	213.8	245.8
Impairment of Goodwill	--	(0.6)	--
Asset Writedown	--	--	(1.7)
Other Unusual Items	(1.0)	--	--
EBT Including Unusual Items	165.0	213.3	244.1
Income Tax Expense	60.6	80.5	92.1
Earnings from Continued Operations	104.4	132.8	152.0
Earnings of Discontinued Operations	0.9	0.6	(1.0)
Net Income	105.2	133.4	150.9

Source: Capital IQ, <http://www.capitaliq.com>, accessed March 2010.

Exhibit 8 Corrections Corporation of America, Balance Sheet, 2006 to 2008, in millions

Balance Sheet	As of December 31,		
	2006	2007	2008
ASSETS			
Cash and Equivalents	29.0	57.8	34.1
Short-Term Investments	82.8	-	-
Total Cash & Short-Term Investments	111.9	57.8	34.1
Accounts Receivable	237.4	236.9	263.1
Total Receivables	237.4	236.9	263.1
Prepaid Expense	17.6	21.0	23.5
Deferred Tax Assets, Current	11.7	12.3	16.1
Other Current Assets	1.0	12.7	1.5
Total Current Assets	379.4	340.7	338.3
Gross Property, Plant & Equipment	2,233.8	2,594.4	3,078.2
Accumulated Depreciation	(428.8)	(508.2)	(599.4)
Net Property, Plant & Equipment	1,805.1	2,086.2	2,478.8
Goodwill	15.2	13.7	13.7
Other Intangibles	0.3	0.0	0.0
Accounts Receivable Long-Term	15.5	14.5	13.4
Loans Receivable Long-Term	4.2	4.5	4.1
Deferred Charges, Long-Term	15.9	15.0	11.7
Other Long-Term Assets	15.2	11.1	11.4
Total Assets	2,250.9	2,485.7	2,871.4
LIABILITIES			
Accounts Payable	71.8	114.6	82.8
Accrued Exp.	75.4	82.2	91.8
Current Portion of Long-Term Debt	0.3	0.3	0.3
Current Income Taxes Payable	2.8	1.0	0.5
Other Current Liabilities	14.0	16.7	16.5
Total Current Liabilities	164.4	214.7	191.8
Long-Term Debt	976.0	975.7	1,192.6
Deferred Tax Liability, Non-Current	23.8	34.3	68.3
Other Non-Current Liabilities	37.1	39.1	38.2
Total Liabilities	1,201.2	1,263.8	1,491.0
Common Stock	1.2	1.2	1.2
Additional Paid In Capital	1,527.6	1,568.7	1,576.2
Retained Earnings	(479.1)	(348.0)	(197.1)
Treasury Stock	--	--	--
Comprehensive Inc. and Other	--	--	--
Total Common Equity	1,049.7	1,222.0	1,380.4
Total Equity	1,049.7	1,222.0	1,380.4
Total Liabilities And Equity	2,250.9	2,485.7	2,871.4

Source: Capital IQ, <http://www.capitaliq.com>, accessed March 2010.

Exhibit 9 Corrections Corporation of America, Cash Flow Statement, 2006 to 2008, in millions

CASH FLOW	For the Fiscal Period Ending December 31,		
	2006	2007	2008
Net Income	105.2	133.4	150.9
Depreciation and Amortization	72.3	83.0	96.2
Amortization of Goodwill and Intangibles	(4.6)	(4.3)	(4.7)
Depreciation and Amortization, Total	67.7	78.7	91.5
Other Amortization	4.4	3.9	3.8
Asset Writedown and Restructuring Costs	-	1.6	-
Stock-Based Compensation	6.2	7.5	9.7
Tax Benefit from Stock Options	(18.2)	(21.2)	(9.0)
Other Operating Activities	32.4	9.6	31.0
Change in Accounts Receivable	(63.7)	(7.0)	(25.2)
Change in Accounts Payable	18.4	25.6	12.3
Change in Income Taxes	19.5	18.8	8.5
Change in Other Net Operating Assets	--	--	--
Cash from Operations	172.0	250.9	273.6
Capital Expenditure	(163.1)	(343.1)	(515.6)
Sale of Property, Plant, and Equipment	0.1	0.7	1.0
Investment in Marketable and Equity Secur.	(63.8)	82.8	-
Net (Income) Decrease in Loans Originated/Sold	0.8	0.9	1.0
Other Investing Activities	(0.2)	5.0	(0.7)
Cash from Investing	(226.3)	(253.7)	(514.4)
Long-Term Debt Issued	150.0	--	293.8
Total Debt Issued	150.0	--	293.8
Long-Term Debt Repaid	(149.1)	--	(76.6)
Total Debt Repaid	(149.1)	--	(76.6)
Issuance of Common Stock	15.8	16.0	10.3
Repurchase of Common Stock	(12.3)	(3.6)	(19.6)
Total Dividends Paid	--	--	--
Other Financing Activities	14.2	19.2	9.0
Cash from Financing	18.6	31.7	216.9
Net Change in Cash	(35.8)	28.8	(23.9)

Source: Capital IQ, <http://www.capitaliq.com>, accessed March 2010.

Exhibit 10 Corrections Corporation of America, Operating Segments, 2006 to 2008, in millions

BUSINESS SEGMENTS	For the Fiscal Period Ending December 31,		
	2006	2007	2008
Revenues			
Owned and Managed	953.9	1,091.2	1,229.3
Managed-Only	329.9	345.1	357.7
Corporate and Other	19.6	20.0	11.8
Total Revenues	1,303.4	1,456.3	1,598.9
Operating Profit Before Tax			
Owned and Managed	307.4	373.1	431.2
Managed-Only	49.2	49.5	51.3
Corporate and Other	(132.1)	(155.9)	(178.7)
Total Operating Profit Before Tax	224.5	266.7	303.8
Assets			
Owned and Managed	1,792.3	2,161.3	2,582.5
Managed-Only	118.0	116.3	115.3
Corporate and Other	339.5	202.2	172.1
Discontinued Operations	1.0	5.9	1.5
Total Assets	2,250.9	2,485.7	2,871.4
Capital Expenditure			
Owned and Managed	(126.8)	(344.3)	(465.2)
Managed-Only	(19.6)	(10.9)	(4.6)
Corporate and Other	(19.7)	(17.8)	(12.2)
Discontinued Operations	(0.3)	(0.1)	(0.1)
Total Capital Expenditure	(166.4)	(373.2)	(482.2)

Source: Capital IQ, <http://www.capitaliq.com>, accessed March 2010.

APPENDIX

Prison Security Levels

Prisoners were housed in different facilities that varied by security level on a scale ranging from level one—minimum security—to level five—for specialized high security units called Super-maximum (supermax) prisons.

Prisoners in minimum security facilities were mainly non-violent offenders convicted of crimes such as fraud or other “white collar” crimes and were thought to pose little physical risk to the public. Most facilities had a perimeter fence but many did not. Prisoners lived in rooms or dormitories rather than cells and were given many privileges. These facilities were work and study directed, and most prisoners attended classes (some outside of the prison) or held community-based jobs such as cleaning up roadside litter.

Medium security prisons featured some work and study programs, but all were conducted within the prison itself. Prisoners mostly lived in cells and the facilities were patrolled by armed guards. Facility perimeters were often double fenced and a variety of monitoring tools, ranging from motion detectors to hidden cameras to pass systems, were used to track prisoner movements within the facility.

In a maximum-security prison, prisoners were confined to individual cells and subjected to 24-hour monitoring. When out of their cells, prisoners movements were restricted to their cell block and prisoners were always escorted by correctional officers.

Supermax prison facilities provided the highest level of prison security and housed the most dangerous prisoners, including terrorists and those who committed serious crimes *while* incarcerated. Most states had either a supermax section of a prison facility or an entire prison facility designated as a supermax. Prisoners were confined 23 hours per day in their cells and one hour for exercise within the cellblock.

The United States Federal Bureau of Prisons operated a special supermax facility, ADX Florence in Colorado, known as the most secure prison in the U.S. ADX Florence operated as other supermax prisons but also had a section called Range 13 that featured permanent 24 hour solitary confinement.

Source: Casewriter.

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