

Part 2: Internal Analysis

4. Internal Analysis

Krystal

The purpose of the internal analysis of a company is to constitute a detailed report of its strengths and weaknesses. For Calpine Corporation, this report will include the organization analysis, firm resources and capabilities analysis, value chain analysis, and financial analysis. Overall, it will give insight on the internal factors that influence Calpine's performance.

4.1 – Organizational Analysis

Ahmed

Analyzing the different aspects of an organization includes evaluating its internal and external strengths as well as the outside opportunities and threats that are paramount to its success. In essence, SWOT analysis, which means strengths, weaknesses, opportunities and threats, is an essential component that is used in strategically assessing an organization's analysis.

Organizations that do a better job in their analysis will be in a better position to identify inefficiencies and resolve them.

4.1.1. Corporate Mission

Krystal

Calpine's corporate mission is to do business safely, by "proactively protecting human health and the environment (Calpine Corporation, n.d.)." Concluding this vision statement, it foresees a business that strives for "responsible environmental, health and safety stewardship (Calpine Corporation, n.d.)." Their vision highlights the importance of maintaining a safe work atmosphere for its employees, while promoting a pollution-free environment. Calpine's corporate mission statement effectively defines its fundamental purpose that defines itself from other firms. Its mission is stated as followed, "Calpine pledges to:

- Diligently develop, construct and operate our facilities in an environmentally responsible manner that promotes pollution prevention and places the highest priority on health and safety.
- Operate facilities that meet all applicable federal, state and local environmental, health and safety rules, regulations, ordinances and statutes as well as recognized industry guidelines and standards.
- Continually measure, evaluate and improve our environmental, health and safety performance.
- Promote environmental, health and safety awareness that fosters a caring, ownership-driven culture among employees, contractors and vendors (Calpine Corporation, n.d.).”

The electric production industry involves interacting with dangerous amounts of voltage that need to be approached with caution. Calpine insures their mission will be executed safely and responsibly, while providing a standard for its employees to abide by. This policy repeatedly highlights how vital it is to take safety precautions when performing company tasks, and putting safety as the highest priority.

Calpine also insures in its mission that environmental health is equally important, by supporting “programs at the federal, regional and state levels that include appropriate reductions in CO² emissions (Calpine Corporation, n.d).” Essentially, this plan highlights their concern for climate change, and how active they are in wanting to prevent it. Its environmental health mission also includes the desire to provide “flexible, market-based solutions that will reward the transition from more carbon-intensive generation to efficient, low carbon-intensive generation and renewable power (Calpine Corporation, n.d).”

The table below compares the approximate air pollutant emission rates from Calpine's natural gas-fired, combined-cycle power plants to the average emission rates from U.S. power plants.

Air Pollutants	Air Pollutant Emission Rates — Pounds of Pollutant Emitted Per MWh of Power Generated		
	Average U.S. Coal-, Oil-, and Natural Gas-Fired Power Plant ⁽¹⁾	Calpine Natural Gas-Fired, Combined-Cycle Power Plant ⁽²⁾	Advantage Compared to Average U.S. Coal-, Oil-, and Natural Gas-Fired Power Plant
Nitrogen Oxides, NOx	1.92	0.14	92.7%
Acid rain, smog and fine particulate formation			
Sulfur Dioxide, SO₂	3.87	0.0058	99.9%
Acid rain and fine particulate formation			
Mercury Compounds⁽³⁾	0.00002	—	100%
Neurotoxin			
Carbon Dioxide, CO₂	1,825	876	52%
Principal GHG—contributor to climate change			

(Source: Calpine Corporation, Emissions Performance, 2011)

4.1.2 Products and Services

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Calpine Corporation, being America's largest generator of electricity produced from natural gas and geothermal resources, is able to offer several products and services. Calpine sells "wholesale power, steam, capacity, renewable energy credits, and ancillary services to" a broad customer base which ranges from utilities to power marketers. Calpine is also able to "enter into natural gas, power and other physical and financial contracts to hedge certain business risks" to optimize their portfolio of power plants (Calpine Corp, 2015).

The revenue recognized by Calpine Corporation is comprised of power and steam that contains fixed and variable capacity payments, resource adequacy and ancillary service, realized settlements from marketing, hedging ^{Revenue} and activities consisting of optimization. Below is a trend of Operating Revenues for Calpine that comprises of the above mentioned products and services that are offered (Calpine Corp, 2015).

SELECTED CONSOLIDATED FINANCIAL DATA

	Years Ended December 31,				
	2014	2013	2012	2011	2010
	(in millions, except per share amounts)				
Statement of Operations data:					
Operating revenues	\$ 8,030	\$ 6,301	\$ 5,478	\$ 6,800	\$ 6,545

4.1.3 Leadership

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Calpine Corporation was started in 1984 in San Jose California (Silva, Yee, & Hobby, 2001).

Calpine has grown to become one of the largest geothermal power producers in the world. It is also the among the largest natural gas fueled power producer in North America. The paper seeks to analyze the internal make-up of Calpine Corporation.

Calpine Corporation leadership is made of executive management and the board of directors. The Executive Chairman of Calpine Board of Directors is Jack A Fusco. Mr. Fusco has been in the power industry for 30 years. Currently, Mr. Fusco deals with the formulation of corporate strategies and the allocation of capital shares. He advocates sound environmental practices and proper allocation of power. In 2012, Jack Fusco was voted the best CEO by the Institutional Investor. Jack A. Fusco was the Chairman and CEO of Texas Genco, from 2004 to 2006 before he joined Calpine. Mr. Fusco has extensive experience, which is evidenced by the amount of time he was worked and the positions he has occupied in different companies over the years.

The President and the CEO of Calpine Corporation is Thad Hill. Mr. Hill joined Calpine in 2008 as the Executive Vice President and the Chief Commercial Officer. He became the COO (Chief Operating Officer) in 2010 and President in 2012. He was worked with NRG Texas and Texas Genco prior to joining Calpine. Thad Hill has a BA degree and MBA (Masters of Business Administration) (Calpine, n.d.).

W. Thaddeus Miller is the Executive VP of Calpine Corporation. He is the CLO (Chief Legal Officer) and Secretary. Mr. Miller has 30 years legal experience, which has mostly been in the energy industry. He occupied the same position in Texas Genco LL until 2006. He worked with Texas Pacific Group from 2002 to 2004. Mr. Miller has been a partner in a legal firm in New York. He was with the US Coast Guard. He has Bachelor of Science degree from United States Merchants Marine Academy and Juris Doctor from St. John's Law School.

Zamir Rauf is the Executive Vice President and the Chief Financial Officer. He was worked with Enron North America and Dynergy Inc. He has worked with Comerica Bank too. Steven D.

Pruett is the Executive Vice President and the Chief Commercial Officer. The other members of the Board of Directors are:

- John Adams
- Hether Benjamin Brown Senior VP, Chief Administrative Officer
- Jim Deidiker Senior VP, Chief Accounting Officer
- Alex Makler Senior VP, West Region
- Kevin G. McMahon Senior VP, Internal Audit and Chief Compliance Officer
- Sarah Novosel Senior VP, Government Affairs
- Andrew Novotny Senior VP, Trading
- Joseph E. Ronan Jr. Senior Advisor, Government and Regulatory Affairs
- Steven Schleimer Senior VP, Government and Regulatory Affairs
- Caleb Stephenson Senior VP, Commercial Analytics
- Todd Thornton, Senior Vice President Origination and Development

4.1.4 Organizational Culture

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Calpine Corporation has a culture that focuses operational structures and ethical standards. The company puts so much emphasis on attaining of ethical standards and integrity. The functional structures within the company dictate the flow of power in the corporation. According to the company website, all employees understand the value of safety. They are expected to ensure safety standards are kept at all times. It is highly conservative and consists of a responsible leadership. The workforce is dedicated to achieving the strategic goals of the organization.

Calpine Corporation has created channels to encourage feedback from employees. The establishment of feedback channels encourages the development of an innovative culture. This culture has been evidenced by the ability of Calpine to lead in the use of environmentally friendly procedures (Calpine Corporation, 2014). Employees understand the importance of authority and the significance of providing feedback and being involved. Calpine Corporation possesses an organized workforce that believes in team, flow of power and dedication to the highest standard of ethics. Evidence

Calpine Corporation started by managing power plants for the Swiss Firm Electrowatt. In 1989, Calpine started making their gas and geothermal power production plants (Silva, Yee, & Hobby, 2001). A value chain analysis is a concept that refers to the procedures and strategies that can be applied to ensure consumers get the greatest value. It is related to the operational structure of an organization. A value chain analysis is part of internal analysis because it focuses on the production of the raw material to the finished product. In the case of Calpine Corporation, it will focus on the production of energy to the point it is distributed to consumers.

4.1.5 – Structure

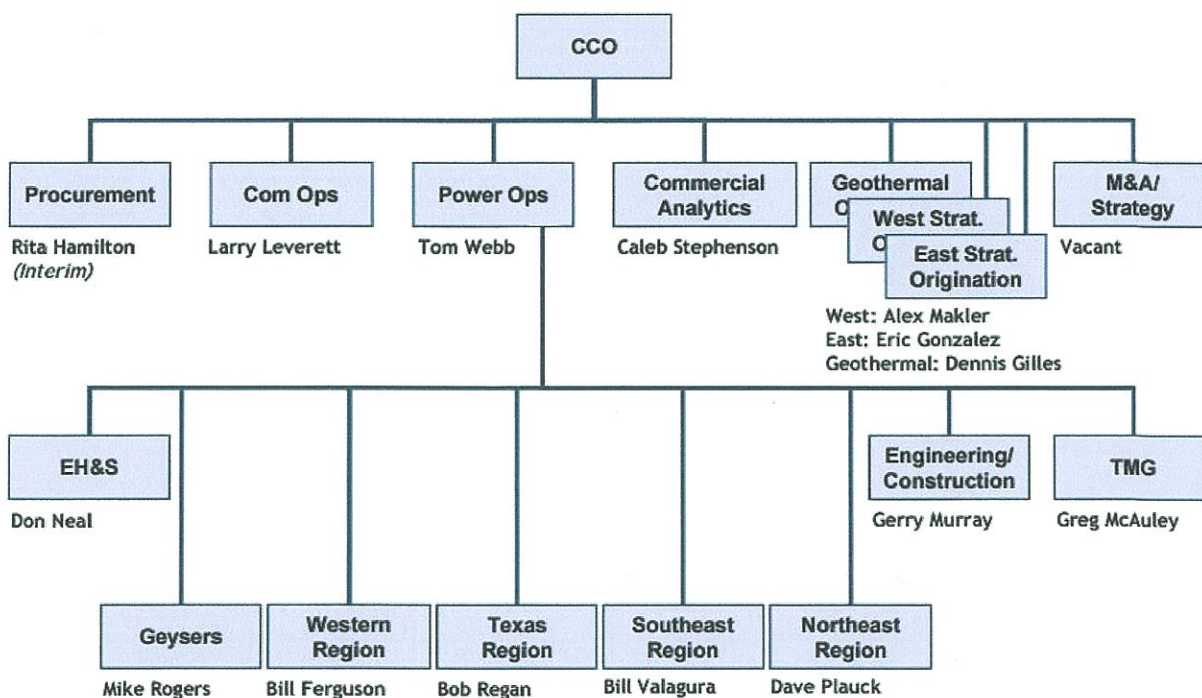
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Ametn.com

The structure of an organization has huge implications on the success of a business. This is because the efficiency and productivity of a business hinges on the flow of information. A precise and clear reporting structure shapes the behaviors and attitudes of management and employees. It gives them a consensus on their roles and responsibilities. Calpine for this purpose can be classified as a decentralized organization that is managed mainly by four executive members. Jack Fusco heads the organization as the president and Chief Executive Officer (CEO) and the other three Executive Vice President's (EVP) each head a different area of operations. Mr. Thad Hill is the Executive Vice President, Chief Commercial Officer (CCO) responsible for operations and power market overview. His team is shown in the chart below:

New Streamlined Organization



Source: Calpine: Generating a Sustainable Future for America

4.2 Analysis of Firm Resources and Capabilities

Anne

One way in which a firm maintains a sustainable advantage over its rivals is through its resources and capabilities. Even the five most utilized and dependable strategies used in creating a competitive advantage centers around the company creating a competitively valuable set of unique capabilities and resources that go unmatched by its competitors. The ability to tell whether a company has that unique set of resources and capabilities can be achieved through the

look up < resource and capability analysis. This entails identifying and then examining the Tangible and Intangible Resources in addition to the Core Competencies of a company and deciphering whether or not they competitively important and if they can support the sustainable competitive advantage over the company's competitors (Gamble, Peteraf, & Thompson, 2013).

4.2.1 Tangible Resources

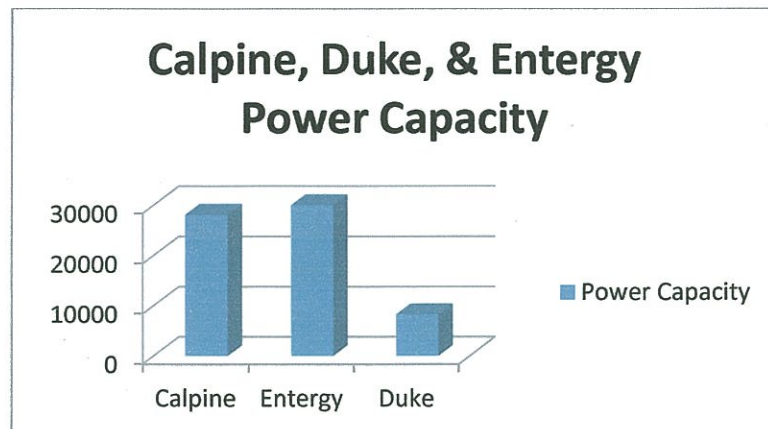
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The first resource of the three previously discussed is Tangible Resources. Tangible Resources are competitive assets that can be controlled by the holding company. There are four different categories of Tangible Resources and they are Physical Resources, Financial Resources, Technological Assets, and Organizational Resources (Gamble, Peteraf, & Thompson, 2013). Calpine has prided itself on its outstanding fleet of Physical Resources.

Physical Resources: Strong

- Calpine Corporation has a unique fleet of 88 power plants, including one that is currently under construction. These power producing plants are located in 18 states in the U.S. and Canada with a combined 26,548MW generation capacity (Calpine Corp, 2015).
- Calpine's fleet of power generating plants includes of 71 natural gas-fired combustion turbine-based plants and 15 geothermal steam turbine-based plants. These facilities produced 103 billion KWh of electric power to its customer base (Calpine Corp, 2015).

- Calpine is amongst the world's largest owners and operators of industrial gas turbines in addition to co-generation power plants.
- Calpine's Geysers embody the largest geothermal power generation in the U.S. producing an estimated 15% of renewable energy in the State of California where the Geysers are located.
- Calpine has Power Capacity of 28,104 MW compared to its competitors Entergy and Duke Energy of 30,000 MW and 8,277 MW respectively. This can be seen from the chart below.



Financial Resources: Strong

Calpine Corporation's financial resources have steady growth as explained in the following.

- Strong and steady growth in Revenue and Sales. Calpine's Revenue's increased from \$5.5B in 2012 to \$6.3B in 2013 and \$8B in 2014. Sales for Calpine have also increased in the past three years. 2012 there were sales of \$5.24B, \$6.5B in 2013, and \$7.65B in 2014 (Morningstar, 2014).
- Strong Profitability. Calpine is America's largest generator of electricity produced from natural gas and geothermal resources. It has successfully allocated capital to invest in

growth investments, returns to shareholders and careful management of its balance sheet (Calpine Corp, 2015).

- Calpine Net Income has had more consistent and steady growth than that of its competitors Duke and NRG despite its lower Sales. Net Income for Calpine increased 6657% in 2014 while Duke Net Income decreased 29% and NRG Net Income decreased 135% in 2014.

Calpine's Technological Assets prove that it is one of the producing power in North America.

Technological Assets: Strong

- Calpine has created short and long-term advantages with the discovery and utilization of natural gas from shale united with its modern and efficient combined-cycle facilities. On a short-term basis, is often a low cost resource compared to competing fuel types and older technologies. On a long-term basis, its power producing facilities will be competitive taking into consideration the non-fuel operating costs, when compared to the full life-cycle costs (Calpine Corp, 2015).
- Calpine has a fleet of 15 geothermal power plants at The Geysers region of Northern California. Being the largest producer of geothermal energy in North America the geothermal power plants use a natural, clean energy source, the steam from the Earth's interior, to produce electricity. This technology is realistic in very few parts of the world but is expanding this valuable natural resource (Calpine, 2014)
- Calpine uses the Geysers to capture steam in the geothermal reservoir and pipe it to power generating units. The steam in turn spins a turbine that powers a generator to produce electricity (Calpine, 2014).

Calpine's Organization Resources maintain its commitment to high ethical and environmental standards.

Organizational Resources: Strong

- Calpine has a well-built and unwavering commitment to the environment and its use of clean, energy-efficient, natural gas and geothermal power producing facilities (Calpine, 2014).
- Calpine Corporation has a high ethical standard throughout the company's performance in corporate governance, environmental responsibility, and safe practices through all its employees (Calpine, 2014).
- Calpine holds its suppliers to the same high standards that it applies to its own operations including a Supplier Code of Conduct, in which it uses to actively monitor their suppliers behavior (Calpine, 2014).

4.2.2 Intangible Resources

Anne

Another resource is that of Intangible Assets. An Intangible Asset can be divided into three categories. Those are Human Assets and Intellectual Capital, Brand, Image, and Reputational Assets, Relationships and Company Culture (Gamble, Peteraf, & Thompson, 2013).

Calpine makes every attempt to exhibit its commitment to the highest ethical standards throughout the company's key areas.

Human Assets and Intellectual Capital: Strong

- Calpine has a strong organizational culture in which corporate governance is adhered to the laws of principles in which the company operates such as Integrity, Accountability, Judgment, Responsibility, High performance Standards, Commitment and Enthusiasm, and Courage (Calpine, 2014).

- Calpine is lead by Corporate Integrity and a listing of general principles that is expected of each Board of Directors including dedicating sufficient time to ensure proper performance, complying with their duties and adhering to the company's code of conduct.
- The increase in demand for Electric Power and transmission engineering positions that are expected to increase in the upcoming years gives Calpine an excess in supply of engineering graduates eager to begin new career opportunities in its industry (U.S. Department of Energy, 2006).

Brand, Image, and Reputational Assets: Strong

- Calpine is committed to keeping its brand, image and reputation assets in strong standings by dedicating itself to uphold high environmental standards by "Keeping Energy Clean". This is done through its production of geothermal energy.
- Calpine is dedicated to "Making a Difference" by eliminating the production of carbon dioxide, sulfur dioxide, nitrogen dioxide, and particulate matter. This is done in part, by the production of geothermal energy.
- Calpine has enhanced renewable resources by assisting in the development of the first wastewater-to-electricity project in the world. The project not only produces energy but eight million gallons of reclaimed water is resent to the Geysers every day. Programs and projects such as these have won numerous awards (Calpine - About Geysers, 2014).

Relationships: Moderate

- Calpine's relationship with its suppliers is one in which Calpine expects and hold its suppliers to the same high standards in which it holds itself with two core values: Safety and Integrity.

- Calpine has assisted in the development of many wastewater-to-electricity projects with the Lake County-Southeast Geysers Effluent Pipeline project and the Santa Rosa geysers Recharge Project. These are only two of many programs that Calpine has worked with other companies in its efforts to produce clean energy, provide a solution for reclaimed water, make a difference environmentally, and enhance renewable resources.

Company Culture: Strong

- Corporate Integrity is expressed through strong and ethical corporate governing principles. Calpine prides itself on being an honest, open, and forthright company in all areas of its operating activities.
- Calpine's commitment to safety and reliability are essential to its measure of performance and is an integral part of every aspect of its work.
- Calpine possess high ethical standards in which employees are expected to demonstrate on a day-to-day basis. This is reinforced through a variety of feedback channels specifically for employees.
- Calpine's Company Culture also prides itself on its dedication to operational practices that safeguard the environment. This is seen by its fleet of power producing plants and their utilization of clean natural gas or renewable geothermal steam as Calpine maintains the largest and cleanest gas-fired power plants in North America (Calpine, 2014).

4.2.3. Core Competencies and Sustainable Advantages *Krystal*

The geothermal generation of Calpine operates at 92% availability at their facilities, and natural gas generation constituted 94% of the energy produced (Calpine Company Profile, 2014).

Calpine's main core competency is that it owns and controls the largest fleet of natural gas-fired and geothermal power plants in the United States. Also, their fleet of natural gas-fired power

plants is amongst the youngest, cleanest, and most proficient power plants. Calpine's capability of being ahead of its competition is a strategic part of their success.

Production capabilities of geothermal plants are not dependent upon the weather conditions, making this method of renewable generation readily available to constantly deliver power.

Several of Calpine's power plants use combined-cycle technology, which is the cleanest way to efficiently convert natural gas into electricity. Calpine having both their revenues and fuel costs be tied to natural gas prices gives them a sustainable advantage over their competition by experiencing less inherent gas-price instability.

4.2.3. Core Competencies and Sustainable Advantages

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4.3 Value Chain Analysis

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Calpine uses two main technologies to produce energy. The first technology is that of natural gas, combined cycle. It makes it possible for Calpine to generate electricity at relatively low costs. The emissions are less compared to other power plants and help in conserving natural resources. The focus on conservation and saving is part of Calpine's mission. The second technology used by Calpine is the Geothermal Power. It allows the Calpine to harness Geothermal Power, which is used to generate electricity. It is one of the cleanest sources of energy in the globe.

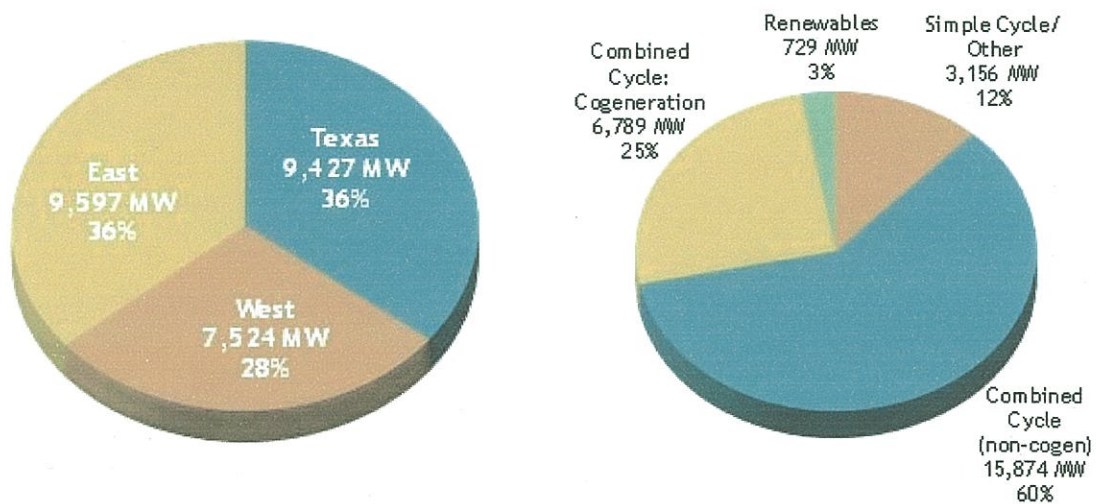


Figure 1: Shows the Distribution of Power Plants and Technologies

Calpine's focus on energy efficiency can be demonstrated by the establishment of proper channels to ensure the product reaches consumers on time. It is very hard to access small details on production costs like the gas cost and so on. Therefore, the value chain analysis can focus on the methods that improve efficiency, which Calpine uses to stay ahead of its competitors. The value added to Calpine product is distribution and pricing.

The main costs incurred by Calpine are wages, natural gas, and oil. Natural gas and oil are used to fuel the company's power units. It purchases electric transmission rights, storage, and

transport. These costs are all part of the production cost. The other accrued costs in power generation are mishaps like power outages, which can lead to the termination of contractual agreements (Calpine Corporation, 2014). Termination comes with the loss of clients and shareholders.

4.3.1 Primary Activities

Régine

The primary activity of Calpine Corporation is the generation and sale of power to its clients. The company has 88 plants that are found in Canada and USA. The company is focused on achieving excellence in its power plants. It also involved in capital allocation, which entails investments and capital allocation to all shareholders. Calpine is also widely involved in community activities that are meant to enhance environmental protection. The influence of Calpine is concentrated in the California area where the company is responsible for the distribution and provision of power to large areas. Calpine is in the business of selling steam, credit, capacity, power and ancillary services that focus on selling power to agencies and individuals. In general, the primary activities of Calpine Corporation are management of power plants, distribution of power, environmental conservation practices and investment ventures.

4.3.2 Support Activities

Régine

The support activities in Calpine are human resource management, technological advancement, infrastructure, and procurement. Functional departments have been set to manage support activities. External Relations is also an essential support activity that makes sure the company is operating with the law. It ensures the organization is in good relations with government authorities. Human resource management is mandated with staffing, recruitment, and compensation and performance appraisal. The department makes sure that Calpine acquires the

best talent to remain competitive. Procurement makes work easy by making sure all materials are available on time. It also ensures it gets the best deals for the purchase of materials, which helps reduce the cost of production. The presence of a well-developed firm infrastructure affects production positively by facilitating smooth movement of employees, which reduces the chances of injuries. In addition, it makes work fast and easy because everything is available on time.

4.4 – Financial Analysis

Ahmed

A company's overall financial health is diagnosed by comparing its assets to its liabilities as well as how much equity it creates for its shareholders. In order to understand Calpine's financial position, an analysis will be conducted on its valuation, growth, profitability, financial strength, and management efficiency using various financial indicators. Data obtained from the company's balance sheet, Income statements, Cash flow statements, and shareholders' equity statements will be used to compare with its competitors. For this purpose Calpine's financial position will be examined and compared against that of Duke Energy Corporation, The AES Corporation, CMS Energy Corporation, along with an industry average.

4.4.1. Valuation Analysis

Krystal

The valuation analysis determines the current worth of an asset or company. For investors, the analysis allows the company's current value to be compared with its competitors. These factors include: market capital; total sales; net income; gross margin; earnings before interest, taxes, depreciation, and amortization (EBITDA); operating margin; earnings per share; price to earnings ratio (P/E ratio); and the price to sales ratio (P/S ratio).

Comparative Valuation of Calpine Corporation Peers (Dec. 2014)					
	Calpine Corporation	Energy Future Holdings	Entergy	Duke Energy	Industry
Market Capital (mil)	8,200	N/A	13,780	53,070	4,450
Total Sales (mil)	7,610	N/A	12,490	23,430	3,310
Net Income (mil)	946	N/A	941	2,450	N/A
Gross Margin %	0.27	N/A	0.62	0.65	N/A
EBITDA	1,950	N/A	4,060	8,810	788
Operating Margin %	0.18	N/A	0.18	0.23	0.13
Earnings Per Share	2.31	N/A	5.22	2.65	0.65
P/E Ratio	9.43	N/A	14.69	28.36	17.09
P/S Ratio	1.06	N/A	1.1	2.25	1.7

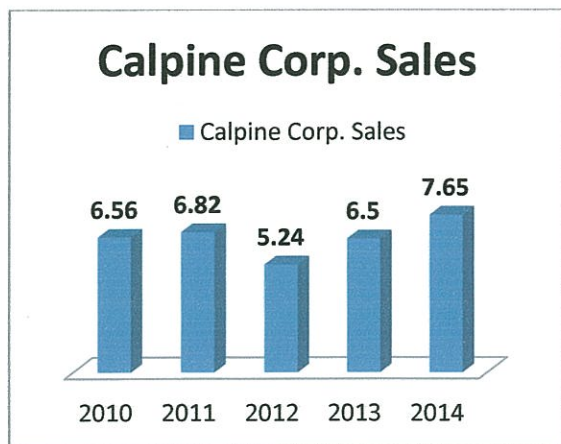
(Source: Yahoo Finance, 2014)

From the comparative data from the above table, Calpine's market capital and total sales is below its competitors, but above the industry average. Its operating margin is .18 which means it makes \$0.18 of each dollar earned in sales. The amount is also above industry average and matches Entergy Corp. Calpine's P/E and P/S are weaker than both its competitors and the industry. A lower earnings growth is a risk for investors that use P/E to compare the value of stock for investment decisions.

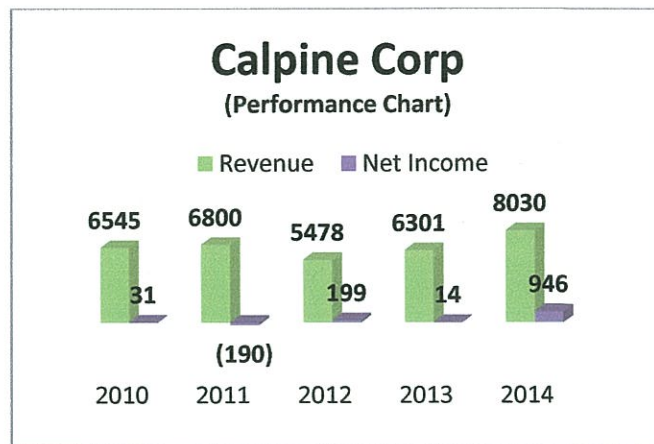
4.4.2 Growth Analysis

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In order for Calpine Corporation to maintain its status of being America's largest generator of electricity produced from natural gas and geothermal resources, it is essential to continue to have strong and steady growth in Sales and Revenues, Gross Profit, and Net Income. As seen from the graphs below, Calpine's Sales has increased \$1.09B since 2010 in addition to a \$1.485B increase in Revenues and a \$915M increase Net income in the last 5 years.



(Nasdaq, 2014)



(Morningstar, 2014).

A strong growth of Revenues, Gross Profit, Net Income, Total Assets, and Total Liabilities of Calpine and its top competitors can be seen from the Growth Rates chart below.

Growth Rates of Calpine Corp. and Competitors 2010-2014												
Growth Of:	Calpine				Duke				NRG			
	2011	2012	2013	2014	2011	2012	2013	2014	2011	2012	2013	2014
Revenue	4%	-19%	15%	27%	2%	35%	25%	-3%	3%	-7%	34%	40%
Gross Profit	-9%	-1%	9%	30%	0%	28%	28%	0%	-13%	-3%	36%	29%
Operating Income	-14%	29%	-13%	128%	13%	12%	60%	6%	-51%	-45%	-2%	265%
Net Income	-713%	-205%	-93%	6657%	29%	4%	51%	-29%	-59%	184%	-169%	-135%
Total Assets	1%	-5%	0%	11%	6%	82%	1%	5%	-1%	31%	-3%	20%
Total Liabilities	4%	-4%	4%	15%	9%	84%	1%	9%	2%	31%	-3%	27%
Total Equity	-7%	-7%	-12%	-4%	1%	79%	1%	-1%	-7%	34%	-4%	2%

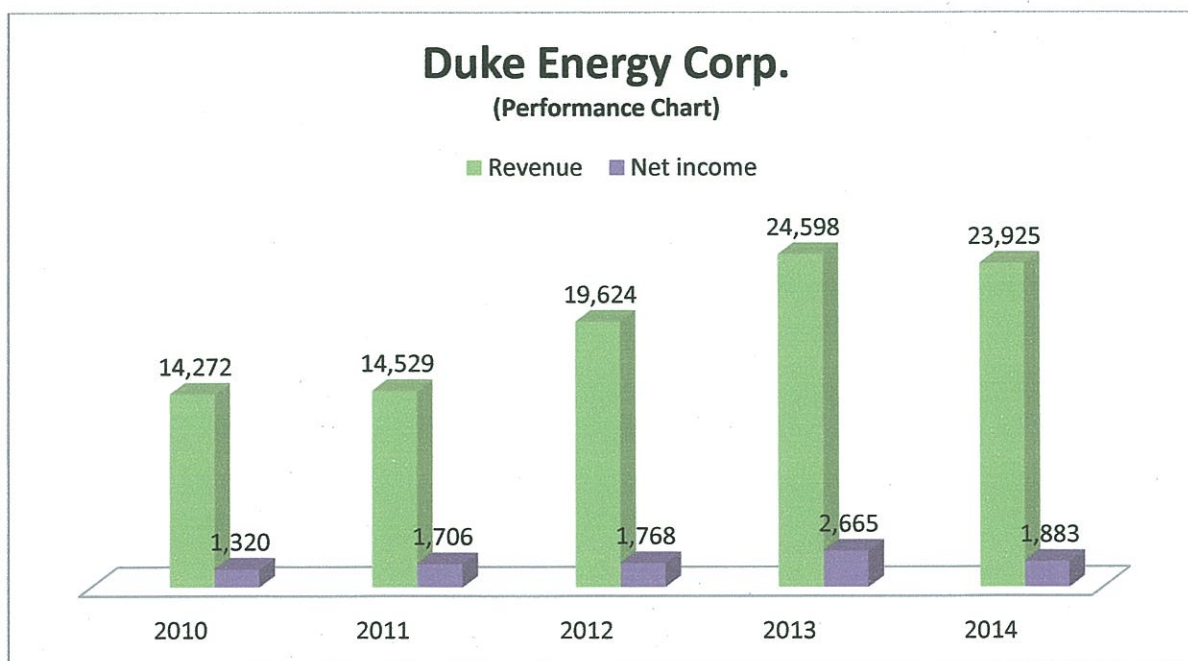
(Morningstar, 2014).

According to the Growth Rates chart directly above Revenues for Calpine increase significantly between 2012 and 2014 going from a -19% decrease in revenues to a 27% increase in 2014.

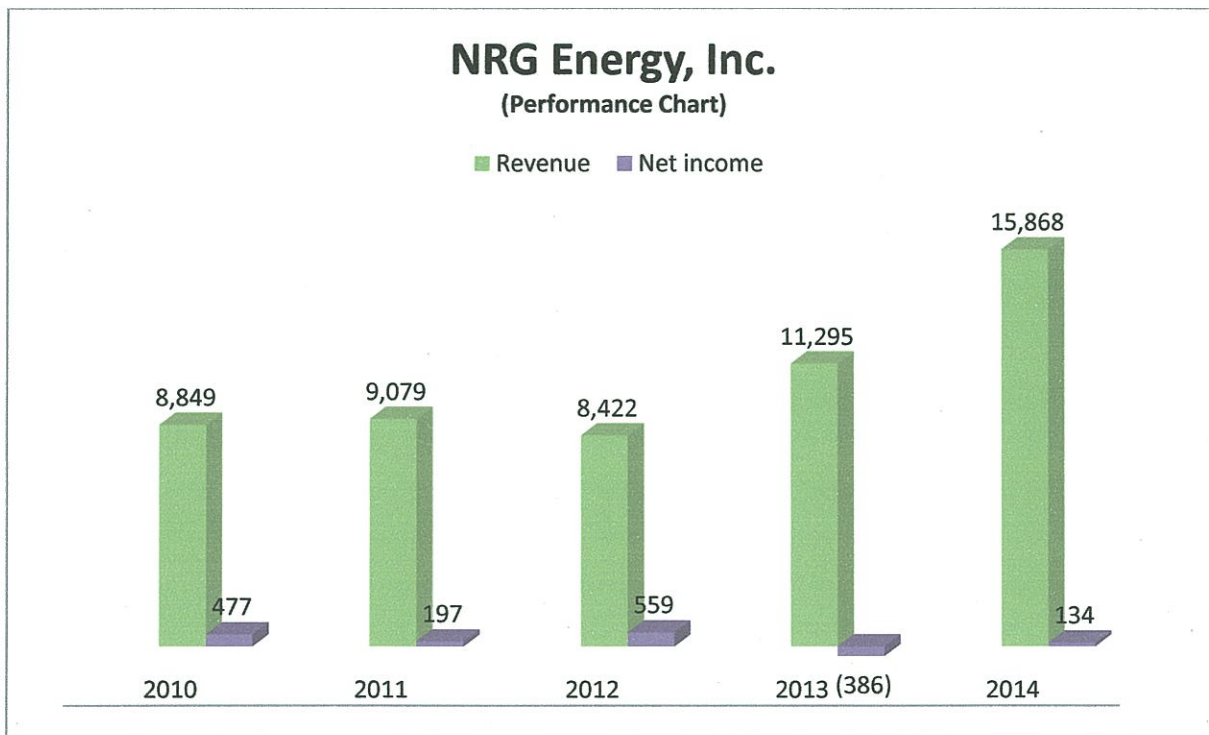
Between the two years that is more than a 46% increase in revenue. Meanwhile, one of Calpine's main competitors NRG saw a very similar increase of revenues within the same timeframe while Duke saw a decrease of 3%. Calpine's Gross Profit has also had strong growth potential in the last two years, meaning that the company was able to keep its Costs of Revenue low, increasing the Gross Profit more than 30% from 2012. This was more of an increase than Duke Energy and NRG. Calpine has also shown growth in its Operating Income in 2014 by

decreasing its Other Operating Expenses creating a 128% increase. On the other hand, since NRG was able to increase its Revenues by 40%, in addition to maintaining flat Operating Expenses in 2014 they also saw a 265% increase in Operating Income. Another strong growth component of Calpine in the last 5 years is the company's Net Income. Even though Calpine saw a decrease in Net Income from 2011 to 2013, the company more than made up for it in 2014 with a 6,657% increase which by far surpassed its two main competitors who both saw decreases in their Net Incomes.

In the below Performance Charts for Duke Energy Corp. and NRG Energy Inc., a direct relationship of Revenue and Net Income can be seen. Both competitor companies like that of Calpine Corporation have a steady growth in Revenues in the last three years with increases in Net Income in the last year.

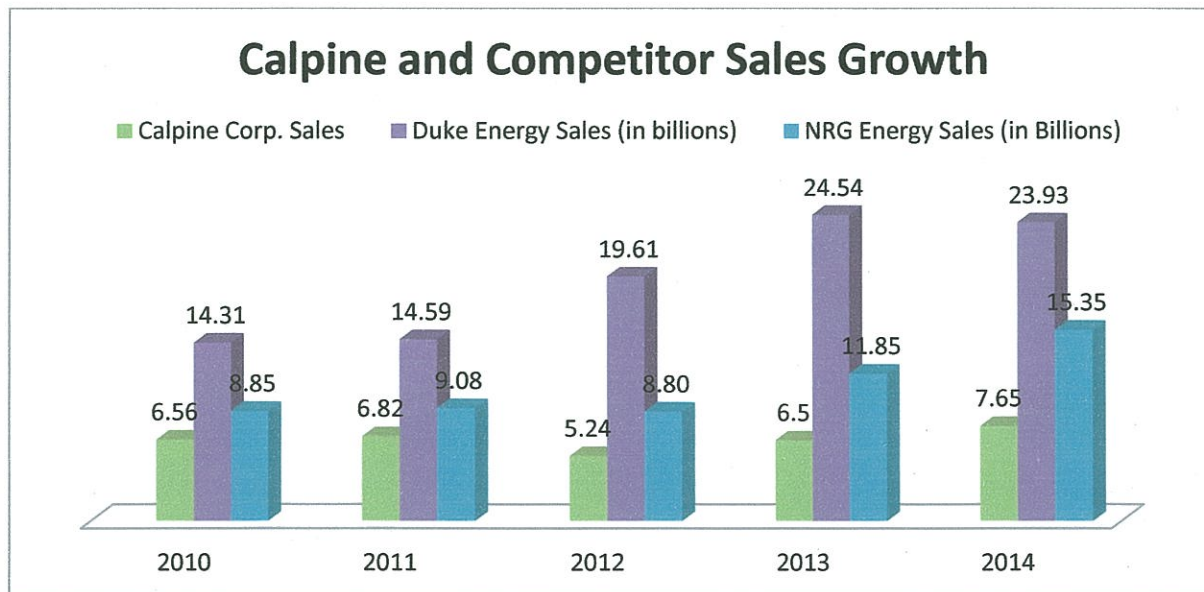


(Morningstar, 2014)



(Morningstar, 2014)

In the Calpine and Competitor Sales Growth Chart directly below a direct relationship and comparison of the three companies' Sales can be seen. As the chart indicates, all three competing companies have had significant increases in Sales in the last three years.



(Nasdaq, 2014)

4.4.3 – Profitability Analysis

Ahmed

Businesses are mainly established to earn a profit and its efficiency hinges on it. The more profitable a business is, the more efficient it is deemed to be and vice versa. Over a period of time, analysts and investors have come to rely on ratio analysis as a quantitative tool that forms the basis for profitability analysis. Its figures are widely used to compare between companies that are within the same industry. By applying various ratios, Calpine's ability to generate profit will be evaluated to give the overall efficiency of the business in comparison to its competitors. Below is a profitability ratio summary table showing how Calpine rates to its competitors from 2010 – 2014.

Gross profit margin gives a good indication of a company's major cash inflows (sales) and outflows (Cost of goods Sold). This is because it calculates gross profit as a percentage of sales. According to the table below, Calpine's Gross Profit Margin percent (GPM) has been fairly stable and consistent averaging 26.06% from 2010 to 2014. Although fairly below the industry average of 35%, Calpine is using its labor, manufacturing-related fixed assets, and raw materials to make profits. In comparison, it fared better than AES Corporation, its close competitor which averaged 21.33% over the same length of time. Duke Energy Corporation and CMS Energy Corp are fairly larger companies in terms of size and capital.

Profitability Analysis of Calpine Corporation and Peers (2010 -2014)

		2010	2011	2012	2013	2014
Gross Profit Margin (%)	CPN	26	22.8	28	26.5	27
	AES	23.8	23.9	20.5	20.43	18.01
	CMS	45.3	46	48.8	49.35	46.26
	DUK	65.5	64.6	61.4	62.66	64.61
	Industry	40.2	39.3	39.7	39.74	35
Operating Margin (%)	CPN	13.8	11.8	18.3	13.9	24.8
	AES	21.5	21.7	18.8	19	16.9
	CMS	15.2	15.4	16	17.4	16.05
	DUK	17.2	19.1	15.8	20.3	22
	Industry	16.9	17	17.2	17.53	14
Net Profit Margin (%)	CPN	0.47	2.79	3.63	0.22	11.78
	AES	6.36	8.86	-1.9	3.47	6.69
	CMS	5.33	6.41	6.14	6.91	6.67
	DUK	9.27	11.8	9.08	10.88	7.9
	Industry	5.36	7.47	4.23	5.37	8.26
Return on Equity (ROE) (%)	CPN	0.68	4.25	4.8	0.37	27.46
	AES	0.16	0.93	-17	2.56	17.88
	CMS	11.5	14.3	12.3	13.6	13.39
	DUK	5.96	7.53	5.56	6.49	4.58
	Industry	4.58	6.75	1.41	5.76	15.83
Return on Assets (ROA) (%)	CPN	0.18	1.1	1.17	0.08	4.77
	AES	0.02	0.14	-2.1	0.28	1.94
	CMS	2.1	2.59	2.28	2.62	2.61
	DUK	2.27	2.81	2	2.33	1.6
	Industry	1.14	1.66	0.84	1.33	2.73

Sources from the financial statements of the companies below: **CPN** = Calpine Corporation;

AES = The AES Corporation; **CMS** = CMS Energy Corp.; **DUK** = Duke Energy Corporation;

Industry = Electric Utilities

The Operating Profit Margin evaluates a company's ability to convert its sales dollars into pre-tax profits. The statistics from the above show that Calpine averaged 16.52% operating profit margin with a huge positive jump of 10.9% (24.8% minus 13.9%) from 2013 to 2014. The steadiness in this sector suggests that Calpine is deemed reliable and that it also has great control over its operating expenses. Competitively, Calpine's average 16.52% ranks third behind AES Corporation (19.58%) and that of Duke Energy's 18.88%. However, in 2014, Calpine recorded the highest percentage operating income of 24.8% compared to Duke's 22% and the industry's

14%. The positive trend in this sector gives Calpine and its investors a better financial projections going forward. Calpine had a net profit margin of 11.78%, by far the highest in 2014. It also recorded the highest net profit margin in 2014 (11.78%) compared to Duke in second (7.90%) and an industry that averaged 8.26%. This bottom line profit indicates that Calpine's overall profitability is positive. The Return on Equity (ROE) gives an indication of how much profit a company generates from the investment of its shareholders and Return on Assets (ROA) gives an indication of how a company generates profit relative to its total assets. Calpine's consistent positive returns and especially its high returns in 2014 (ROE – 27.46% & ROA – 4.77%) for both of these ratios means that the company is efficient at using both its assets and the investment from shareholders in generating profits.

4.4.4. Financial Strength Analysis

Krystal

The financial strength analysis is the company's liquidity that measures its ability to meet its short and long term debt obligations. The short-term debt ratios are the current ratio, quick ratio, and cash ratio. For Calpine, its current ratio has declined since 2012. The 1.32 for 2014 essentially means that for every \$1 of short term debt, Calpine has \$1.32 in current assets. The quick ratio allows a company to measure its ability to use its near cash to extinguish current liabilities immediately, which all companies have yet to maintain a stable increasing or decreasing trend.

Debt-to-equity and total debt financial ratios measure the company's solvency against the long-term debt obligations. The past five years of Entergy Corporation's debt-to-equity has remained above 1, whereas Duke Energy has maintained stability below 1.

Comparative Financial Strength of Tesco Corporation Peers (2010 – 2014)						
		2010	2011	2012	2013	2014
Current Ratio	Calpine Corporation	1.92	1.65	2.15	1.87	1.32
	Energy Future Holdings	N/A	N/A	N/A	N/A	N/A
	Entergy	1.56	0.73	0.9	0.97	1.14
	Duke Energy	1.6	1.24	1.01	1.22	1.03
Quick Ratio	Calpine Corporation	1.12	1.5	1.89	1.63	1.18
	Energy Future Holdings	N/A	N/A	N/A	N/A	N/A
	Entergy	0.84	0.34	0.62	0.69	0.66
	Duke Energy	0.98	0.56	0.37	0.47	0.66
Cash Ratio	Calpine Corporation	N/A	0.73	1.31	0.95	0.33
	Energy Future Holdings	N/A	N/A	N/A	N/A	N/A
	Entergy	0.48	0.15	0.14	0.19	N/A
	Duke Energy	0.43	0.42	0.18	0.18	N/A
Debt-to-Equity Ratio	Calpine Corporation	2.18	2.4	2.66	3.1	3.28
	Energy Future Holdings	N/A	N/A	N/A	N/A	N/A
	Entergy	1.33	1.11	1.3	1.26	1.25
	Duke Energy	0.8	0.82	0.89	0.92	0.91
Total Debt Ratio	Calpine Corporation	0.73	0.75	0.76	0.79	0.82
	Energy Future Holdings	N/A	N/A	N/A	N/A	N/A
	Entergy	0.78	0.78	0.79	0.78	0.78
	Duke Energy	0.62	0.64	0.64	0.64	0.66

(Source: NASDAQ 2013, 2014 & MorningStar 2014)

4.4.5 – Management Efficiency Analysis

Ahmed

One of the fundamental tasks for management is to determine the right amount of assets to invest in. A little too much will increase the operating capital and few of it will result in loss of sales which eventually hamper free cash flow, stock price, and inevitably profitability. In order to verify how effective and efficient Calpine's managers have been with the company's assets, certain management ratios will be analyzed to verify if they have been used to generate sales. The table below summarizes this position:

Comparative Management Efficiency of Calpine Corp. and Peers (2010 -2014)							
		2010	2011	2012	2013	2014	Average (%)
Return on Capital Employed (ROCE) (%)	CPN	4.07	3.31	5.91	4.36	10.77	5.68
	AES	4.28	4.36	0.4	4.33	10.59	4.79
	CMS	5.96	6.83	5.91	6.26	6.26	6.24
	DUK	4.68	5.44	4.24	4.54	3.54	4.49
	Industry	4.75	4.99	4.12	4.87	7.79	5.3
Return on Equity (ROE) (%)	CPN	0.68	4.25	4.8	0.37	27.46	7.51
	AES	0.16	0.93	-17	2.56	17.88	0.91
	CMS	11.5	14.3	12.3	13.6	13.39	13.02
	DUK	5.96	7.53	5.56	6.49	4.58	6.02
	Industry	4.58	6.75	1.41	5.76	15.83	6.87
Return on Assets (ROA) (%)	CPN	0.18	1.1	1.17	0.08	4.77	1.46
	AES	0.02	0.14	-2.1	0.28	1.94	0.06
	CMS	2.1	2.59	2.28	2.62	2.61	2.44
	DUK	2.27	2.81	2	2.33	1.6	2.2
	Industry	1.14	1.66	0.84	1.33	2.73	1.54
Inventory Turnover	CPN	19.33	16.92	11.89	12.5	13.63	14.85
	AES	21.7	18.92	18.52	17.4	20.29	19.37
	CMS	4.55	4.96	2.82	3.39	4.29	4
	DUK	3.48	3.54	3.15	2.84	2.52	3.11
	Industry	12.27	11.09	9.1	9.03	10.18	10.33
Total Asset Turnover	CPN	0.39	0.39	0.32	0.38	0.46	0.39
	AES	0.42	0.4	0.42	0.39	0.43	0.41
	CMS	0.42	0.41	0.37	0.38	0.39	0.39
	DUK	0.25	0.24	0.22	0.22	0.2	0.23
	Industry	0.37	0.36	0.33	0.34	0.37	0.35

Sources from the financial statements of the companies below: **CPN** = Calpine Corporation;

AES = the AES Corporation; **CMS** = CMS Energy Corp.; **DUK** = Duke Energy Corporation;

Industry = Electric Utilities

Based on the above data, 2014 signifies a good year for Calpine. The company also recorded above the industry's average percentage returns for all five the years in question (2010 to 2014).

Its Return on Capital Employed (ROCE) averaged 5.68 % compared to the industry's 5.30%,

only CMS Energy Corporation recorded a better average of 6.24%. This above average performance in this sector is very useful for companies like Calpine that operates in a very high capital-intensive industry. This also means that corporate is doing a good job in returning profits in relation to the amount of capital they have invested. The same is true for Calpine's inventory turnover. The company averaged 14.85% compared to the industry's 10.33%, again only AES Corporation averaged higher with 19.37%. The implications for a company that is able to turn over its inventory at an above average are twofold:

- Calpine is able to reduce its holding and storage costs.
- It shows that Calpine is effectively managing its inventory.

In turning over its total asset (fixed and current) to generate sales, Calpine stayed steady over the five year period averaging 0.39%, only slightly above the industry average of 0.35%. See profitability analysis for Return on Equity (ROE) and Return on Assets (ROA). On average, Calpine's executives are efficient at managing the company's assets in generating revenues.

4.5 Summary of Strength and Weaknesses

Understanding a company's strengths and weakness through the standard method of a SWOT analysis can assist in determining a company's strategic positioning.

A company's strengths should be the foundation of its organizational strategy, putting much dependence on its competitive assets in order to compete against its competitors and attract new or appeal to its customers. The following have been identified as Calpine's Strengths:

- Clean Energy Producer

Calpine is America's leader in the production of electricity from natural gas and geothermal power plants including the company's Geyser project which is the largest in

the U.S. The combination of these three clean energy assets results in lower emissions of carbon gases when compared to its competitors' power producing facilities using such fossil fuels such as coal.

➤ Flexibility of Natural Gas Power Plants

Calpine has amongst the largest fleet of natural gas power producing plants which create the foundation of the company's flexibility and its markets that it competes in. The most important benefit of the Natural Gas power plants is its ability to start and stop turbines quickly and frequently. While it can take coal-fired power generation to take 12-16 hours for start up a Natural Gas power plant can start up within 10-30 minutes (MarketLine, 2014).

➤ Diversified Operations

Being on the largest suppliers of wholesale power in the U.S., having flexible natural gas power facilities, and being a producer of clean energy has allowed Calpine to operate within four segments. These segments are the Texas segment, the West segment, the North segment, and the Southeast segment. These different segments have allowed Calpine the ability to tap in to a greater market for future growth.

Company weakness can make the organization at risk, restrict profitability, and hinder it from pursuing future endeavors to enable the company to grow. The following were found to do just that for Calpine:

➤ Dependence on retail energy companies to deliver to end users

While Calpine is a leader in the U.S. for clean energy it still relies heavily on retail energy companies to deliver its product to the end users. Due to the fact that Calpine does not own or operate assets that can transmit the power it produces to the end users, it

remains dependent on organizations that can. Disruption in the ability of these companies to adequately deliver power to the end users can restrict Calpine's ability to sell and deliver the product, power, that they produce.

➤ Confined to North American consumption (not global)

Being a top producer of energy only in North America enables Calpine to receive its revenues from the same geographic region. Calpine is restricted to one market, even though it has a significant impact in that region. The lack of exposure to other geographic regions renders the organization susceptible to economic factors of that region and an excess coverage in one region can increase business risks and negatively impact Calpine's profitability (MarketLine, 2014).

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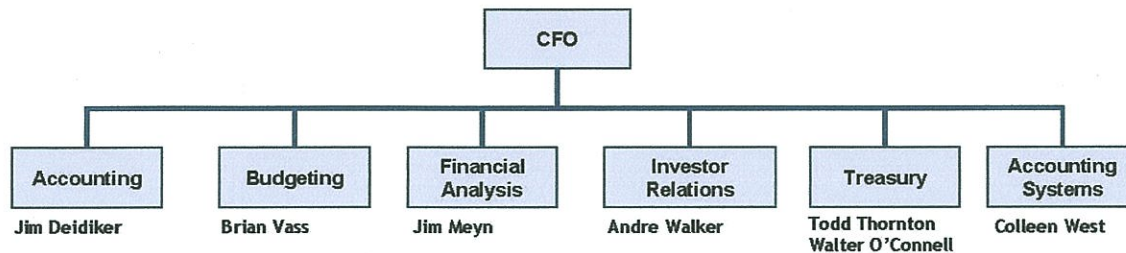
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Mr. Zamir Rauf is the EVP and Chief Financial Officer (CFO) and he oversees the financial area of the business. His team is shown below:

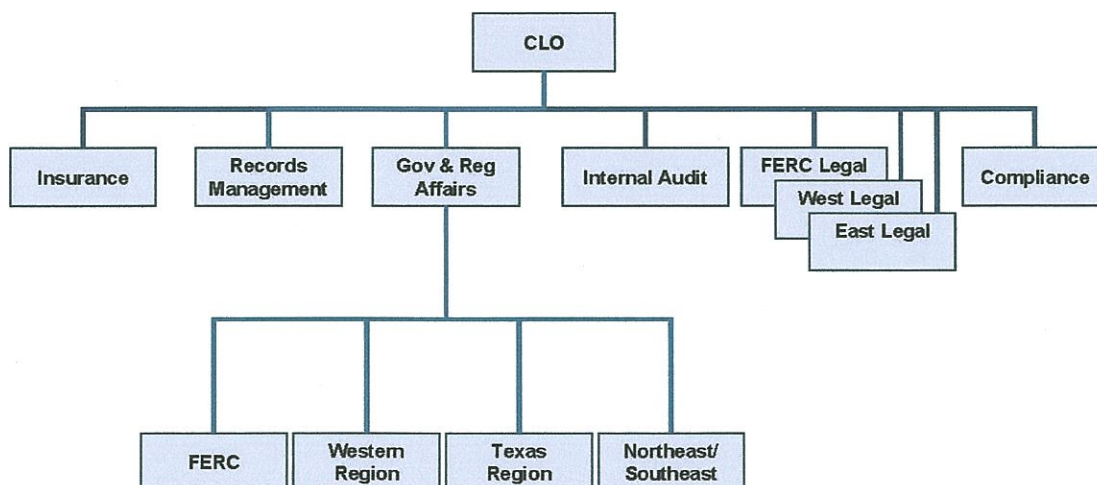
Strong Leadership in Key Roles



Source: Calpine: Generating a Sustainable Future for America

All legal and regulatory matters are headed by Mr. Thad Miller, the EVP and Chief Legal Officer and Secretary. His team is shown below:

CLO Organization



Source: Calpine: Generating a Sustainable Future for America

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