Business Acquisitions

ACC401 Advanced Accounting I

Pacific Gas and Electric Company is a publically traded company, a subsidiary of the larger Pacific Gas and Electric Corporation. The company was established in 1905, in central California (Pacific Gas and Electric Company, 2015). The company deals majorly with sales and delivery of natural gas and electricity. The company has grown a great deal and as at December 31st, 2014, the company had an employee count of 22,569. This is a testament to the productivity of the company. The financial statement of the year indicates that the company is at a high place and may, in fact, be able to expand its operations and diversify in their product line. In a situation as unique as this, the company may as well look into different opportunities in the energy industry (United States Securities and Exchange Commission, 2014).

In the last five, years, the company has come to grow its operating revenue by over twenty percent. This is an indication of the company’s potential performance if the productive nature is to be transferred to different markets. The company has maintained a steady and very strategic pace in its productivity and overall organizational growth. The energy industry has experienced some difficult economic times in the last five years but the Pacific Gas and Electricity Company has managed to strategize their operations in such a way that realizes organizational growth regardless of the economic atmosphere. The company is therefore in a position to consider a significant move in the energy industry that would result in the expansion of the company (United States Securities and Exchange Commission. 2014).

The company, as mentioned, has capitalized on making profits from the sale and delivery of natural gas and electricity. This is two of the most valuable and profitable commodities in the world today. The market for the products it sales is, therefore, a highly profitable venture. The company has not majored in the manufacture or production of the products it sells. It has for a long time experienced limited exponential growth due to this fact. It is because of this that there is a need for the company to set up a plan to expand to other markets. It is important to note that with the company track record and the need to develop, it would be invaluable if the company leveraged its position for economic gain.

The company recorded a net income amount of 1.4 billion (United States Securities and Exchange Commission). 2014. This is as small number compared to the tens of billions that other energy companies have come to return annually. The advancement of the organization would demand that the stakeholders limit the drawings that are made at the end of the year. Several other cuts will be necessary if the plan will realize the eventual growth of the company. It is important that the company limit its controlling interest in the company whose business it will acquire. Businesses often warm up to the idea that merging is an advantageous move. The company must, therefore, focus its acquisition on expanding and ensuring the sustenance of the company to be acquired. This will inspire positive reception in the company to be acquired giving a simpler and smoother time to during the acquisition process.

Sandridge Energy Inc. is an Oil and Gas company that focuses on the production and exploration of oil in the United States of America. The company majorly operates in Oklahoma but has a few other units in operational in Texas. It has for a long time developed its gas gathering and processing facilities, marketing operation and oil field service business. The company has come to sell its other operating units in the Gulf of Mexico. At the time, the company was looking to focus its operations in the Mid-continent area of America. This would place the company operations centrally placed (Sandridge Energy Inc. 2015). This position has placed them strategically in the country. They are in a position to expand the market of Pacific Gas and Electricity Company exponentially to reach states as far as the East coast of the country. This position if leveraged to a maximum, will result in a significantly large organizational growth that will place the merger at a competitive advantage compared to their much more significant competitors.

In the last half decade, Sandridge Energy Inc. has fallen victim to different legal issues. In addition to the lawsuits that the company has been subjected to, the company has had to deal with the decline of the economy which directly affects the product that it bases its operations on. The price of oil has dropped a great deal, and this has affected the operating income of the company. In the midst of this crisis, the company has tried to seek financial help from the different banks and even the government. Unfortunately, the government has released credit spreads that limit the ability of the company to acquire financial aid. This has left the company with a few options as far as the survival of the company is concerned (Costello 2015).

Under these circumstances, the Pacific Oil and Gas Company can afford to merge with Sandridge Energy Inc. to try and advance the two companies. It majors in the sale of electricity and Natural Gas. This means that even in an economic crisis, the company sales of electricity has experienced a very limited decline if at all any. Sandridge is significant in production and sale. The two companies are in a unique situation to realize an equilibrium that ensures the Oil produced by Sandridge is well marketed and sold. The Pacific Oil and Gas Company, therefore, seek to acquire the shares to in Sandridge Energy Inc. to expand the market in which it deals in by using Pacific Oil and Gas Company.

Pacific Oil and Gas Company is in an excellent financial position but not good enough to acquire total control over Sandridge. This being the case, the company can work towards gaining a controlling interest in the company and later increase the equity that it owns. For this reason, it would be advantageous if the company acquire 35% of Sandridge and give the merger a ten year period in which the growth of the company is looked into, and the profitability of the association ascertained. If the association works in favor of both companies, then Pacific Oil and Gas Company can choose to gain the controlling interest in the company. This however cannot be total control as it may require the company to stretch its current financial resources beyond what it can afford. The company should, therefore, look towards achieving a 51% voting stock of Sandridge Energy Inc. This will ensure that the resources, including manpower that the Sandridge Energy Inc. has grown over the course of its operation is affected in a minimal sense. The operations will therefore not change to the disadvantage of Pacific Oil and Gas Company. It will, in fact, improve the chances of the company’s growth due to the experience that its employees have and cut the cost of hiring new employees after the merger.

In the event, the merger realizes limited productivity. The Pacific Oil and Gas Company must look into other options to either turn the company productivity up or to sell its stock to the public, assuming that the overall productivity of the company changes in limited manner. Then the price of the stock will have to be altered to ensure that the investment the company made does not result in a loss. Their sale of the shares should turn a profit and realize a profit. The merger would include acquisition costs that should be left out in the calculation of fair value of stocks. Any investment that the Pacific Oil and Gas Company made that was not directly connected with the acquisition process should be added to the shareholders equity account of Sandridge Energy Inc. this should then be forecasted on the impact of the investment that Pacific Oil and Gas Company made and added as part of the assets that the company acquired during the merger. The Pacific Oil and Gas Company can then sell the stock at the adjusted book value in the second year’s financial records.

References.

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