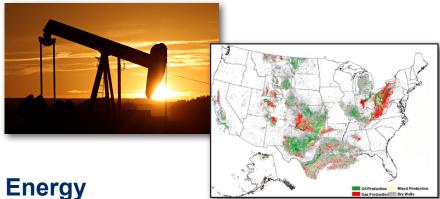
Oil and Gas





Case Study: Blue Jay Energy

The Situation

Blue Jay Energy (BJE) focuses on the exploration, development and production of natural gas and crude oil in several regions of the United States. The company currently has proved reserves in excess of one billion cubic feet of gas equivalent and a reserve-to-production ratio of over 10 years.

The Problem

As is common with energy exploration businesses, Blue Jay's holdings include some underperforming fields. It recently decided to divest an oil and gas leasehold with tangible field machinery and equipment so that it could reinvest in properties it expected would generate greater yields. The property it intended to dispose of was comprised of 80% real property and 20% tangible well equipment. It quickly found a buyer, but the proposed \$12.9 million sale price for their 85% operating interest would result in a tax liability of roughly \$4 million.

The Solution

Blue Jay has conducted 1031 real property Exchanges in the past, but has done so with Qualified Intermediaries that rely on inefficient paper-based processes. As a result of this added administrative burden company leadership has never fully integrated Like- Kind Exchanges (LKEs) into their strategic planning, operations and asset recovery strategy.

BJE was referred to Accruit by its bank. Accruit established a qualified escrow account under the Trust company at the bank to assure maximum security of funds. Accruit then helped the firm facilitate the sale and purchase of the new lease and equipment as an LKE.

The Results

The exchange was conducted successfully, allowing the company to defer \$4 million in tax liability – money that it then invested in more promising properties and new oil and gas tubing and casing. In addition, Accruit's patented process and one-to-one client services model created a degree of efficiency that Blue Jay had never imagined possible. Blue Jay's senior leadership and finance team were enthusiastic about both the monetary benefit and the ease of use associated with the Accruit process. Other QIs they had worked with only specialized in real property and failed to account for the differences between real and tangible assets. Blue Jay is now considering implementation of a full-scale Accruit 1031 program.

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