

# Anacomp case

Business



Anacomp Case BY Anta26 1 5 september 2010 Assignment 1 Hanna Zaitsava 5686377 Externe Verslaggeving 1 1) Identify all the economic entities involved in the development of Anacomp's CIS software system: \*

Partnership with RTS Associates \* Officers and directors of Anacomp (total ownership amounted to 38.

5%) \* 13 major banks participated as advisory banks to review the project 2) Describe the contractual arrangements between the economic entities involved in the CIS development. Who bears the majority of the risk of failure of the development effort?

Who stands to gain most if the development effort succeeds? Are Anacomp's shareholders better off or worse off with this arrangement, relative to in-house development of the system? RTS pays a development fee of \$6 million, of which (1) \$1.444 million was invested by the partners, (2) \$3.25 million was a bank loan to RTS, (3) and \$2.2 million was lent by Anacomp. Furthermore, if the development expenses exceeded \$6 million, Anacomp would loan up to \$1.

5 million to complete the CIS system.

Anacomp had the option to acquire all rights to the CIS system at the greater of its appraised fair market value or RTS's investment plus a fixed profit and agreed to market CIS for 5 years on a commission basis. Officers and directors of Anacomp owned 38.5% of shares in RTS. 13 banks contracted to advise on the CIS project for a nonrefundable fee of \$150,000 each. Upon the completion of CIS development Anacomp purchased it from RTS for \$16 million.

<https://assignbuster.com/anacomp-case/>

The majority of the risk was born by RTS. In case the development succeeded Anacomp would gain the most.

Anacomp shareholders are better-off with this arrangement as it would be more expensive for them to develop the system in-house. 3) What criteria will Anacomp's management use in deciding on whether or not to buy back the CIS system from RTS Associates? Is Anacomp's management likely to be unbiased in deciding on the timing and the price of the purchase? If not, what will be the direction of the bias? Anacomp would purchase the system in case of its success. The decision of the management would be biased towards acquisition of CIS system without success as they had 38.

5% stake and could lose the potential of further development. In general, do you think Anacomp's use of R&D partnerships is a sensible approach to new product development? What are the overall costs and benefits of this approach? On the one hand, Anacomp benefited from the financing issues, but on the other hand there appeared a conflict of interest by management and loss of the further potential development. 1982. What are the reasons for this earnings decline? Are there any unusual and one-time items that influenced Anacomp's 1982 performance? The reason for the drop in earnings per share was the overall increase in expenses above the revenues.

In 1982 the performance was positively influenced by extraordinary credit that arose from the sale of branch office and amounted in \$2.5 million gain before income taxes (capital gain rate of \$711000).

Otherwise the earnings would drop even more. 7) Evaluate Anacomp's cash flow situation. The company reported that its operations provided  
<https://assignbuster.com/anacomp-case/>

approximately \$8 million in 1982. How much cash was generated from Anacomp's operations in 1982? In 1981? 1982 Working Capital from Operations Accounts and Notes Receivable 1981 8316 (2068) Unbilled Revenues Inventories (2671) (1455) Deferred CIBS Development Costs Prepaid Expense Accounts Payable (6623) (636) Accrued Salaries, Wages and Bonuses (7283) (513) (5647) (2714) 1022 741 1639 16673 (6841) 1185 Accrued Interest Payable Income Taxes Other Accrued Liabilities Cash from Operating Activities 3382 (419) (1162) 4026 (3054) 338 1668 8) What is the total amount of debt that Anacomp has on its books? Does the company have any off-balance-sheet liabilities? Total debt = Total Current Liabilities + Total Long-Term Debt + Unrealized Losses + all debt in partnerships. 9) What is your assessment of Anacomp's financial flexibility at the end of 1982?

Can the company withstand any potential difficulties which could arise with the completion of the CIS system? Profits declined, debt increased, borrowing to pay out dividends indicate that Anacomp could have trouble to deal with potential difficulties which could arise with the completion of the system.

10) What is your overall assessment of Anacomp's future? Do you think Anacomp's investors should be worried about the company's viability? In connection with the previous answer it doesn't look like Anacomp would be profitable in the future. Thus, investors should be worried about its viability.