Senator NELSON. Thank you. Go ahead. I think you were on the last sentence, page 4.

Mr. BURROWS. Actually, we may not in fact have achieved any profit on the small volume of prednisone sales which we made.

Senator NELSON. In the selling of the product at $1.36 for 100 tablets, I assume that whoever is responsible for setting the sales price intended at least that the product would make a profit and not a loss; is that not correct?

Mr. BURROWS. That would be their hope, but it doesn't necessarily follow that they are good accountants.

Senator NELSON. Do you have any evidence to submit to the committee that in selling at $1.36 for 100 tables, that the company did in fact sustain a loss in the production of and sale of this item?

Mr. BURROWS. I don't think that I could prove that the company actually incurred a loss. However, as an exercise, if we prorated our unallocated expenses in the United States such as our general and administrative expenses; our selling expenses and I will leave out advertising from the selling expense group because we did no advertising on this product; our excess of actual production costs over standard costs; a percentage factor for research; and if we add these prorations to our 50-cent base standard cost of manufacturing, we come out about even-steven. These added charges also would include the royalties paid on the product sold, cash discounts allowed on sales and the like that were involved in this particular product.

Senator NELSON. Do I understand you to say that if you took into consideration all factors of cost——

Mr. BURROWS. As we incurred them in the United States and related them to this average U.S. selling price of $1.36.

Senator NELSON. That you think you would have about broken even, is that correct?

Mr. BURROWS. About broken even. Obviously, we are not in the business of breaking even.

Senator NELSON. I assume, would this be correct, that part of the factor in your breaking even was the fact that your volume was not very large? Would it change, in other words, if your volume were $1 million worth of sales at $1.36 instead of $29,000 of sales?

Mr. BURROWS. That is a hypothetical situation which we haven't experienced, and I don't think I would like to speculate on what might happen if we had sales of $1 million.

In the first place, if you are going to sell at that level, you certainly are going to have to do some advertising, which was not involved in our product. The larger your inventory investment, the greater your risk of obsolescence and the like. The larger your production processing, the greater your risk of production hazards, which as they occur have to be written off. So, not having experienced a capacity or a volume in the range of $1 million or more, I would not like to speculate on what might have happened if we had been in that fortunate position.

Senator NELSON. So that it is clear in my mind, I understand you to have said in your statement that you paid 50 cents for the raw material; is that correct?

Mr. BURROWS. No. Fifty cents is the basic standard cost.

Senator NELSON. The manufacturing cost.