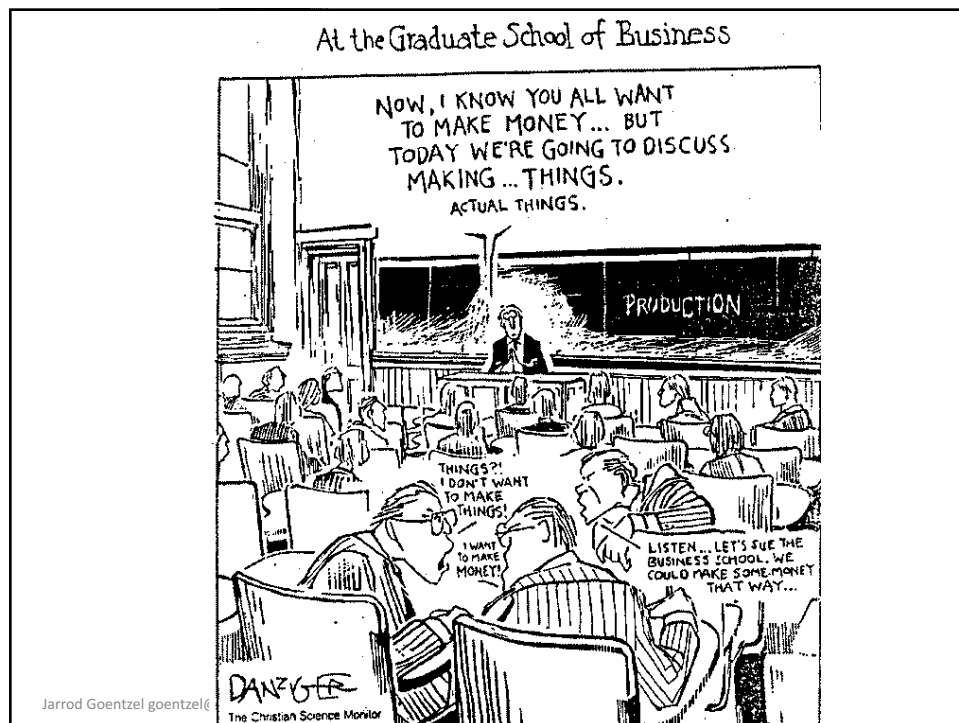


# Preparation to be CEO

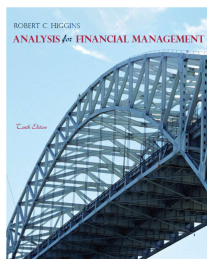
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The first principle in a common MBA finance textbook

**“A company’s finances and operations are integrally connected.”**



Source: Higgins, R. Analysis for Financial Management. 10th ed. McGraw-Hill Irwin, 2011

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## Why is operations undervalued?

- “In our company, operations is not glamorous. Deals are.”
- Operations is a branch of engineering requiring a different skill set and mindset
- Top managers – who entered through finance, strategy, or marketing – are ignorant about operations and uninterested in learning more, relying on others to mind the details of actual work
- “Financial data dominate the discourse in the modern organization, although operational performance is the driver of financial results.”

Source: “Deep Change: How Operational Innovation Can Transform Your Company,” Michael Hammer, *Harvard Business Review*, Vol. 82 Issue 4, April 2004, pp. 84-93.

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# The Language of Finance

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## The language of finance

- Financial Statements
  - Balance Sheet
  - Income Statement
- Financial Analysis
  - Ratios
  - Acronyms (ROA, ROIC, NOPAT, EBIDTA,...)

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## Balance Sheet

- Snapshot of the firm's value
  - Approximation: accountants measured value at the time the transaction took place
  - Book value is the lower of cost or market value
- Assets (listed in order of liquidity)
  - Current: cash, marketable securities, accounts receivable, inventories consumed in the current year
  - Fixed: property, plant, equipment (less accumulated depreciation) consumed in the future
  - Intangible: patents, goodwill... "growth assets" consumed theoretically
- Liabilities (listed in order in which they must be paid)
  - Current: accounts payable, notes payable,...
  - Long-term: notes, bonds, deferred income taxes,...
- Shareholders' equity (a.k.a. net worth)
  - Stock: preferred, common Last to be paid if a firm is dissolved
  - Retained earnings

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## Income Statement

- Performance record between snapshots
- Explains why retained earnings has changed over time
  - Sales (net of markdowns)
  - Cost of goods sold
  - GROSS INCOME
  - Selling, general & administrative (SGA) expenses
  - OPERATING INCOME EBITDA
  - Depreciation & amortization
  - OPERATING INCOME EBIT
  - Interest expense
  - Other nonoperating expenses/income
  - Income taxes
  - Extraordinary items
  - NET INCOME EIATBS

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## Financial statements

**“Financial statements are like fine perfume; to be sniffed but not swallowed.”**

– Abraham Briloff

Source: Higgins, R. Analysis for Financial Management. 10th ed. McGraw-Hill Irwin, 2011.

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## Financial analysis

**“accountants try to measure the current standing and immediate past performance of a firm, whereas financial analysis is much more forward looking.”**

– Aswath Damodaran, Stern School of Business

Source: [http://pages.stern.nyu.edu/~adamodar/New\\_Home\\_Page/AccPrimer/accstate.htm](http://pages.stern.nyu.edu/~adamodar/New_Home_Page/AccPrimer/accstate.htm)

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## Ratio analysis

### Income Statement

Sales  
Cost of Goods Sold  
Gross Profit  
SG&A Expenses  
Depreciation & amortization  
EBIT  
Interest Expense  
Income Taxes  
Net Income

$$Ratio = \frac{Numerator}{Denominator}$$

### Balance Sheet

Cash & Equivalents  
Accounts Receivable  
Inventories  
Total Current Assets  
Net Property/Plant/Equipment  
Total Long Term Assets  
Total Assets

Accounts Payable  
Total Current Liabilities  
Long Term Debt  
Total Liabilities  
Common Stock  
Retained Earnings  
Total Stockholder's Equity  
Total Liabilities & Equity

## Overall measure of financial performance

- Is there a single metric that can reflect the firm's financial performance for investors?
- for executives?

- Return on Equity  $ROE = \frac{Net\ Income}{Equity}$

- Return on Assets  $ROA = \frac{Net\ Income}{Total\ Assets}$

## DuPont analysis

- DuPont analysis is based on a return-on-investment formula developed in 1914 by a DuPont explosives salesman named Donaldson Brown and used by the company. Mr. Brown later used it as CFO at General Motors, but it was already known as the DuPont formula.

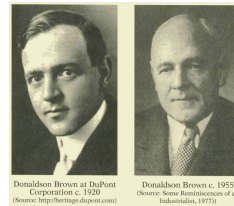
$$R = T \times P$$

where

$R$  = rate of return on capital invested,

$T$  = rate of turnover of invested capital, and

$P$  = percentage of profit on sales



- In essence, it is a simple combination of two ratios

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Source: Flesher, D. L., & Previts, G. J. (2013). Donaldson Brown (1885-1965): the power of an individual and his ideas over time. *The Accounting Historians Journal*, 79-101.

## DuPont analysis

Gross or Operating Margin is a more common metric for supply chain professionals than Net Margin

Inventory Turnover, a narrower focus than Asset Turnover, is often a metric for supply chain professionals

$$\text{Net margin} = \frac{\text{Net income}}{\text{Sales}}$$

$$\text{Asset turnover} = \frac{\text{Sales}}{\text{Total assets}}$$

$$\text{ROA} = \text{Net margin} \times \text{Asset turnover}$$

$$\text{Financial leverage} = \frac{\text{Total assets}}{\text{Equity}}$$

$$\text{ROE} = \text{Net margin} \times \text{Asset turnover} \times \text{Financial leverage}$$

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## Levers of performance for 10 diverse companies, 2010

	Return on Equity (ROE) (%)	=	Profit Margin (P) (%)	×	Asset Turnover (A) (times)	×	Financial Leverage (T) (times)
Adobe Systems	14.9	=	20.4	×	0.47	×	1.57
Chevron	18.1	=	10.0	×	1.03	×	1.76
Google	18.4	=	29.0	×	0.51	×	1.25
Hewlett-Packard	21.7	=	7.0	×	1.01	×	3.08
JPMorgan Chase	10.3	=	15.0	×	0.054	×	12.58
Norfolk Southern	14.0	=	15.7	×	0.34	×	2.64
Novartis	15.5	=	19.3	×	0.41	×	1.95
Safeway	11.8	=	1.42	×	2.71	×	3.03
Sensient Technologies	10.9	=	8.1	×	0.83	×	1.63
Southern Company	12.6	=	11.7	×	0.32	×	3.40

Source: Higgins, R. Analysis for Financial Management. 10th ed. McGraw-Hill Irwin, 2011.

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## Financial analysis

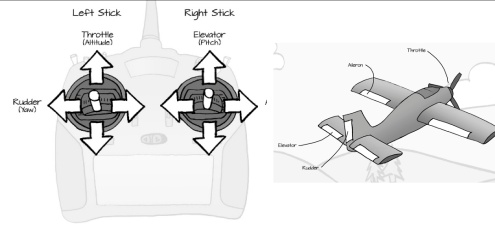
- Higgins' three levers of management control
  - Net margin: Net income / Sales
  - Asset turnover: Sales / Assets
  - Financial leverage: Assets / Shareholders' equity
- Study the “ties between a company's operating decisions...and its financial performance.”
  - “Operating decisions are the levers by which management controls financial performance.”
  - Examples given: how many units to make this month, how to price them

Source: Higgins, R. Analysis for Financial Management. 10th ed. McGraw-Hill Irwin, 2011.

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## Financial analysis



- Analogy: levers to control a fixed wing aircraft – stick, throttle, rudder
- “We analyze financial statements for the purpose of
  - evaluating performance and
  - understanding the levers of management control.”

Source: Higgins, R. Analysis for Financial Management. 10th ed. McGraw-Hill Irwin, 2011.  
 Graphic: <http://learn.parallax.com/tutorials/robot/elev-8/how-fly-multirotor-suav/steering-aircraft>  
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## Principal ratio definitions (Higgins)\*

### Profitability Ratios

<b>Return on equity</b>	= <b>Net income/Shareholders' equity</b>
Return on assets	= Net income/Assets
Return on invested capital	= $\frac{\text{Earnings before interest and taxes} \times (1 - \text{Tax rate})}{\text{Interest-bearing debt} + \text{Shareholders' equity}}$
<b>Profit margin</b>	= <b>Net income/Sales</b>
Gross margin	= Gross profit/Sales
Price to earnings	= Price per share/Earnings per share

### Turnover-Control Ratios

<b>Asset turnover</b>	= <b>Sales/Assets</b>
Fixed-asset turnover	= Sales/Net property, plant, and equipment
Inventory turnover	= Cost of goods sold/Ending inventory
Collection period	= Accounts receivable/Credit sales per day (If credit sales unavailable, use sales)
Days' sales in cash	= Cash and securities/Sales per day
Payables period	= Accounts payable/Credit purchases per day (If purchases unavailable, use cost of goods sold)

\* Excluding the leverage and liquidity ratios

Source: Higgins, R. Analysis for Financial Management. 10th ed. McGraw-Hill Irwin, 2011.

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## Ratio analysis advice

- There are not any “correct” values for ratios
- Ratio values need to be understood in context
  - Compare with industry averages
  - Compare with specific competitors
  - Observe trends over time
- Develop a framework of several ratios to monitor
- In combination, these clues may tell an interesting story

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## You are now ready to be CEO


Sunflower Nutraceutical (SNC)  
Simulation

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# Sunflower Nutraceutical (SNC)

- How did you like being CEO?
- What was your objective in making decisions (in rank order)?
- What approaches did you use to evaluate options?

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**WELCOME TO THE WORKING CAPITAL SIMULATION**


**SUNFLOWER NUTRACEUTICALS**

Sunflower Nutraceuticals (SNC) is a privately held nutraceuticals distributor based in Miami, Florida, and founded in 2006. SNC started as an internet-based, direct-to-consumer distributor and retailer of dietary supplements, including vitamins, minerals, and herbs for women, with product offerings for all age groups. Through its website and catalog, SNC offers customers a large selection of stock keeping units (SKUs) from more than 50 third-party brands. Since its founding, the company ambitiously expanded into new retail outlets and launched several private-label brands, including a line of women's electrolyte sports drinks, metabolism-boosting powders, and a vitamin line for teenage girls.


SNC is breaking even, with relatively flat annual sales growth on total revenues of \$10 million. The business is working-capital-intensive, and margins are generally thin. Several times during the past few years, the company struggled to finance the payroll, given the firm's constrained cash position, and more than once the company's line of credit was overdrawn. SNC keeps a minimum amount of cash on hand to meet operational needs and this level of required cash is \$300,000. The company also accesses a line of credit, with a fairly restrictive set of governing covenants, issued by a national bank. The credit limit on the facility of \$3,200,000 is priced as a spread over the 1-year LIBOR. It is currently set at a rate of 8%. SNC uses a cost of capital of 12% to evaluate investment opportunities.


Health food companies have sold vitamins for decades, but the nutraceuticals industry is relatively new. Although regulatory bodies apply stricter definitions, the term nutraceuticals generally means "a fortified food or dietary supplement that provides health benefits". Examples include omega-3 fatty acids, probiotics, and soy and energy drinks. By 2010, the global nutraceuticals market was worth approximately \$128.6 billion; it is forecasted to grow at a compound annual growth rate (CAGR) of 4.9% and reach \$180.1 billion by 2017. The key driving factors for industry growth are the increase in the elderly population, the rate of growth in chronic diseases, the relative affluence of the working population, and increasing societal awareness of preventive medicine.


Jarrod Goentzel

 WORKING CAPITAL SIMULATION: MANAGING GROWTH


**HOW TO PLAY**

 **Step 1: Prepare**


Read the Prepare tab to familiarize yourself with the basic background of Sunflower Nutraceuticals. Download the  [Terminology Primer](#) to review key terms before beginning the simulation.

 **Step 2: Analyze Reports**


The financial statements report the company's historical and current financial picture and how the financial condition of Sunflower Nutraceuticals is changing over time.

 **Step 3: Enter Decisions**

Click on the Decide tab to enter investment decisions for the next phase. You can choose to invest in or reject any or all of the opportunities available to you in that 3-year phase. When you have finished entering your investment decisions, click the Submit Decision button to advance to the next phase.

 **Step 4: Review Results**

Look at the Synopsis page and your financial statements to see how each opportunity you selected impacted Sunflower Nutraceutical's performance. Continue until you have completed all phases of the simulation.

 [More Details](#)

**Non-binding Credit Limit**

You will have unlimited attempt(s) to complete this scenario.

# Sunflower Nutraceutical (SNC) results

Date	User	Sales*	EBIT*	Total Firm Value	Credit Constraint Violation
8/24/17 5:39	Stejerean, Cosmin	\$23,430	\$2,500	\$5,407	Yes
8/24/17 3:15	Konnerth, Marion	\$23,430	\$2,500	\$5,407	Yes
8/23/17 18:59	Nellore, Raj	\$23,430	\$2,500	\$5,407	Yes
8/23/17 13:49	Kao, Tim	\$23,430	\$2,500	\$5,407	Yes
8/24/17 5:12	Zheng, Wei	\$22,214	\$2,396	\$5,348	Yes
8/24/17 11:17	Dudeja, Vinod	\$18,304	\$1,897	\$5,278	No
8/24/17 6:17	Catalano, Marlon	\$18,304	\$1,897	\$5,278	No
8/24/17 6:16	Biswal, Deepti	\$18,304	\$1,897	\$5,278	No
8/24/17 5:57	Phull, Suraj	\$18,304	\$1,897	\$5,278	No
8/23/17 13:58	Lomas, Rob	\$18,304	\$1,897	\$5,278	No
8/24/17 5:00	Ramos, Andrea	\$16,221	\$1,751	\$5,213	No
8/24/17 4:59	Ward, Richard	\$16,221	\$1,751	\$5,213	No
8/23/17 19:27	Hall, Jacob	\$16,221	\$1,751	\$5,213	No
8/23/17 21:23	Natale, Matteo	\$15,379	\$1,679	\$5,163	No
8/24/17 2:46	Huang, Pin-chao	\$19,826	\$2,058	\$5,099	Yes
8/23/17 20:42	Ramadan, Amin	\$19,826	\$2,058	\$5,099	Yes
8/24/17 4:52	Alor, Alan	\$16,950	\$1,636	\$5,066	No
8/23/17 20:14	El-azzamy, Ahmed	\$22,214	\$2,055	\$5,048	Yes
8/24/17 11:19	Tordable, Javier	\$14,080	\$1,472	\$5,031	No
8/23/17 13:58	Uribe, Andres	\$14,080	\$1,472	\$5,031	No
8/23/17 13:51	Nieto, Mauricio	\$14,080	\$1,472	\$5,031	No
8/24/17 5:39	Sub Chang, Chang	\$15,488	\$1,561	\$4,998	No
8/23/17 13:58	Mantrawadi, Mayu	\$15,488	\$1,561	\$4,998	No
8/23/17 13:55	Welch, Christopher	\$16,896	\$1,703	\$4,947	No
8/24/17 5:58	Ducrot, Leo	\$20,717	\$1,913	\$4,887	No
8/24/17 6:12	Camara, Miguel	\$19,826	\$1,769	\$4,848	No
8/24/17 5:13	Leks, Mak	\$9,856	\$993	\$4,803	No
8/23/17 14:02	Chaparala, Raj	\$9,856	\$993	\$4,803	No

Date	User	Sales*	EBIT*	Total Firm Value	Credit Constraint Violation
8/23/17 20:58	Miranda, Vitor	\$22,856	\$1,750	\$4,719	Yes
8/23/17 13:47	Harrison, Dan	\$22,856	\$1,750	\$4,719	Yes
8/24/17 5:31	Felicio, Nestor	\$14,459	\$1,187	\$4,699	No
8/24/17 6:08	Utomo, Moriano	\$12,372	\$1,299	\$4,673	No
8/23/17 13:56	Manjunatha, Chaitra	\$16,896	\$1,387	\$4,671	No
8/23/17 13:54	Mokios, Argiris	\$15,488	\$1,614	\$4,629	No
8/24/17 11:38	Abullarade, Juan	\$7,873	\$827	\$4,563	No
8/24/17 5:32	Monzon, Donato	\$8,998	\$945	\$4,504	No
8/24/17 6:13	Phull, Arjun	\$20,391	\$1,583	\$4,426	Yes
8/23/17 13:48	Gupta, Prakkhar	\$11,469	\$1,007	\$4,397	No
8/23/17 13:48	Haces, Jesus	\$21,098	\$1,555	\$4,388	Yes
8/23/17 13:56	Espinoza, Bruno	\$14,459	\$1,236	\$4,341	No
8/23/17 21:29	Rossi, Alejandro	\$16,567	\$1,434	\$4,313	No
8/23/17 13:51	Heuser, Alison	\$16,567	\$1,434	\$4,313	No
8/23/17 21:00	Rocha, Josh	\$15,465	\$1,417	\$4,241	No
8/23/17 13:51	Figuerola, Jose	\$17,497	\$1,452	\$4,214	No
8/24/17 11:19	Miceli, Vitor	\$13,086	\$1,112	\$4,175	No
8/23/17 13:55	Liem, Fiona	\$13,067	\$1,053	\$4,087	No
8/23/17 13:59	Tanaka, Toshitada	\$9,000	\$622	\$3,969	No
8/23/17 13:51	Iwata, Ichinomiya	\$9,000	\$622	\$3,969	No
8/23/17 13:52	Frias, Manuel	\$13,086	\$851	\$3,957	No
8/24/17 4:42	Ballon, Andres	\$20,996	\$1,664	\$3,909	Yes
8/24/17 5:37	Takai, Shimpei	\$13,086	\$1,157	\$3,842	No
8/23/17 13:57	Dey, Manas	\$13,000	\$882	\$3,744	No
8/24/17 5:58	Giardina, Giovanni	\$11,000	\$715	\$3,714	No
8/24/17 5:19	Perez, Sergio	\$12,000	\$817	\$3,278	Yes
8/23/17 13:54	Kin, Younjung	\$14,000	\$910	\$3,023	Yes

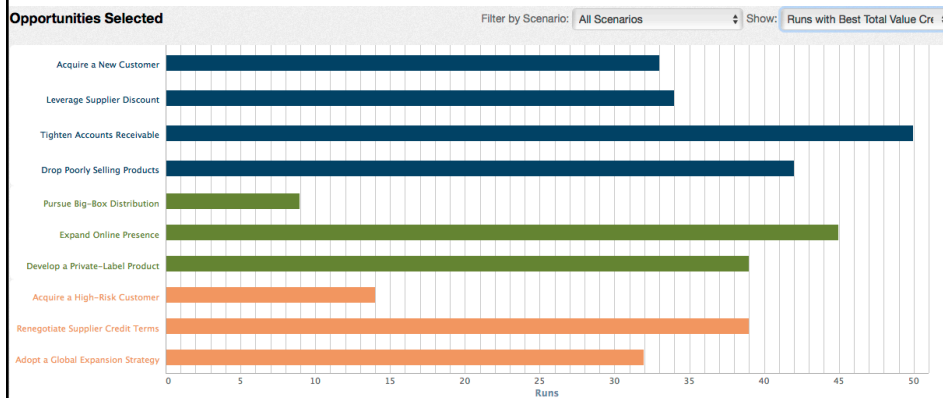
Notes:

Some runs actually violated the \$3200 credit limit but were still recorded in the database as their highest Total Firm Value

\* indicates Final Year Values

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# Sunflower Nutraceutical (SNC) results



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## Two goals of the CEO

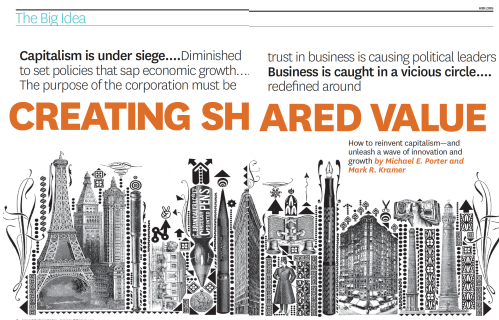
- Provide Shareholder Value
- ...and stay out of jail

Bernard J. "Bernie" Ebbers co-founded the telecommunications company WorldCom and was the CEO. In 2005, he was sentenced to 25 years in prison for his role in the \$11 billion accounting fraud that brought down the company.



## Goal of the CEO

- Provide Shareholder Value



Kramer, M. R., & Porter, M. (2011). Creating shared value. *Harvard business review*, 89(1/2), 62-77.

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## Goal of the CEO

- Provide Shareholder Value

*It is now in vogue to dismiss the idea that creating shareholder value should be a CEO's guiding objective. Concepts like "societal value," "shared value," and "customer capitalism" are offered as desirable and more enlightened substitutes. This is muddled thinking. CEOs who understand the principles of shareholder value and execute effectively will satisfy most, if not all, of the objectives of those who call for a new way of thinking. The problem is that the true definition of creating shareholder value seems to have gotten lost.*

- Michael J. Mauboussin. "What Shareholder Value is Really About," HBR Online Forum, October 03, 2011. <https://hbr.org/2011/10/ceos-must-understand-what-crea>

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## How do you provide shareholder value?

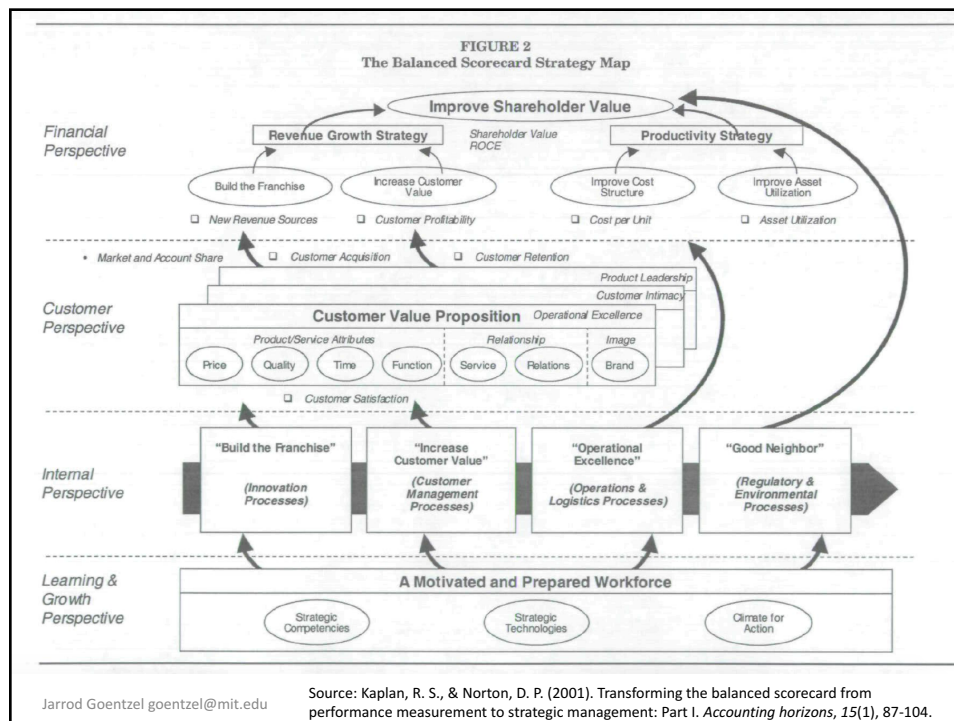
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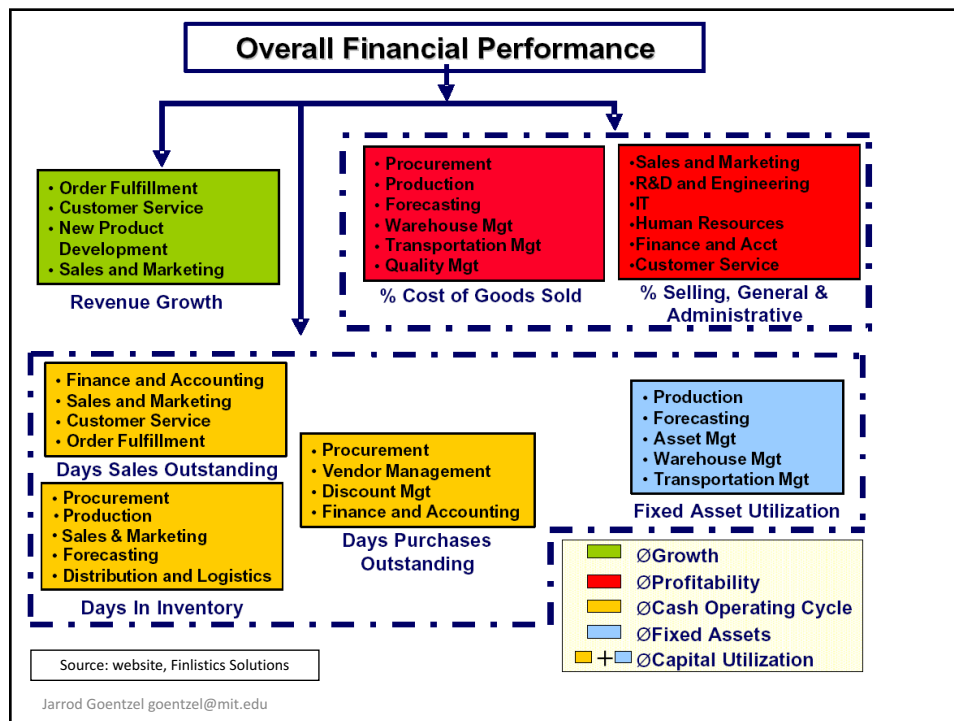
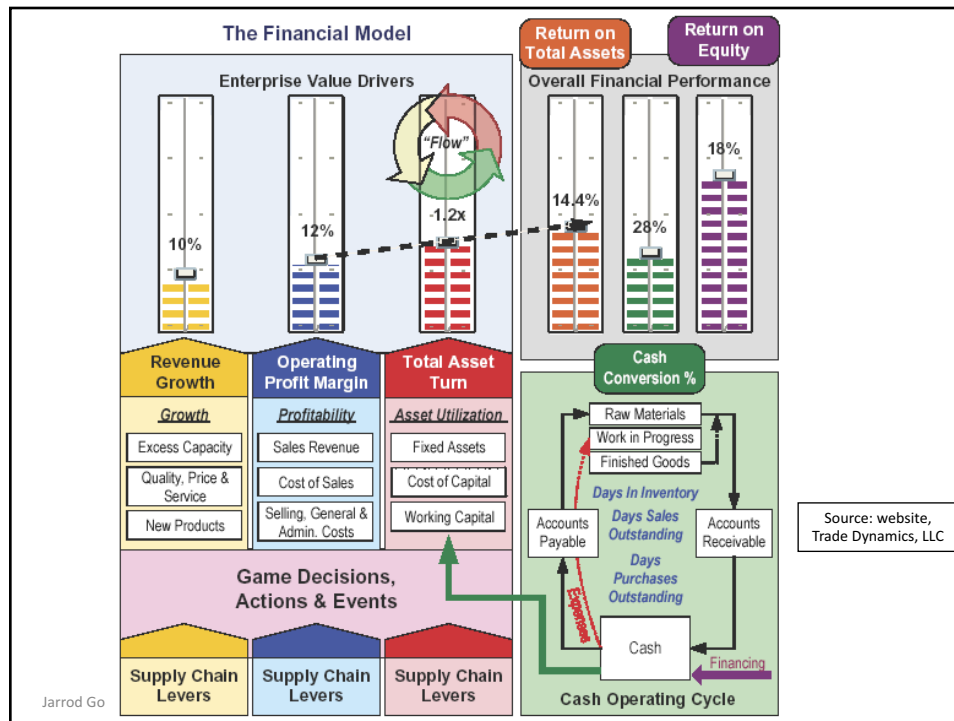
## Balanced Scorecard

- “Ultimately, causal paths from all the measures on a Scorecard should be linked to financial objectives.”
- “We have found that companies use three financial themes to achieve their business strategies:
  - Revenue Growth and Mix
  - Cost Reduction / Productivity Improvement
  - Asset Utilization / Investment Strategy”

Source: Kaplan, R. S., & Norton, D. P. (1996). Linking the balanced scorecard to strategy. *California management review*, 39(1), 53-79.

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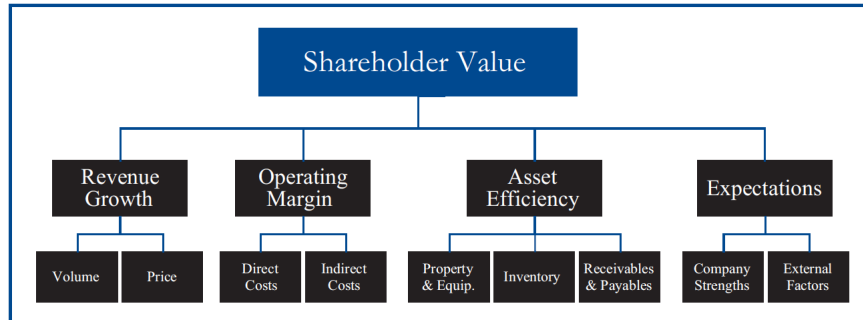






# Deloitte Enterprise Value Map

**Figure 1** High-level shareholder value map (Deloitte methods)

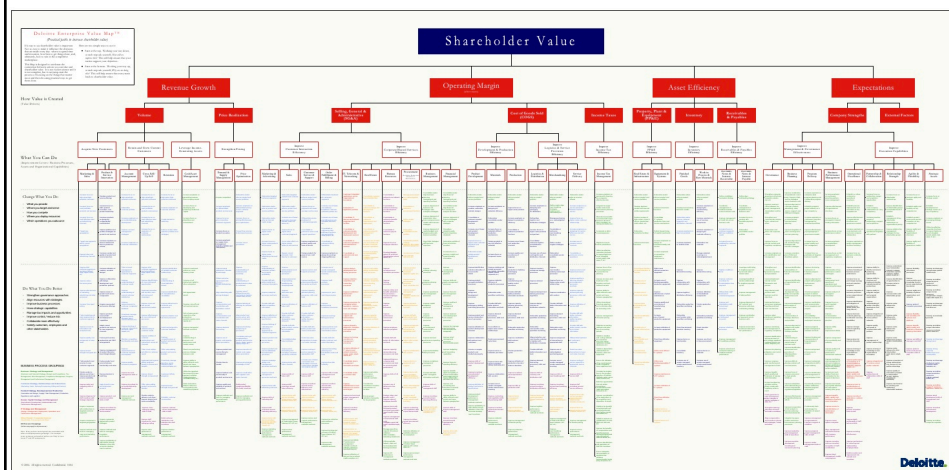


Source: Lukac, E. G., & Frazier, D. (2012). Linking strategy to value. *Journal of Business Strategy*, 33(4), 49-57.

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# Deloitte Enterprise Value Map

Download the full map: [http://public.deloitte.com/media/0268/enterprise\\_value\\_map\\_2\\_0.pdf](http://public.deloitte.com/media/0268/enterprise_value_map_2_0.pdf)



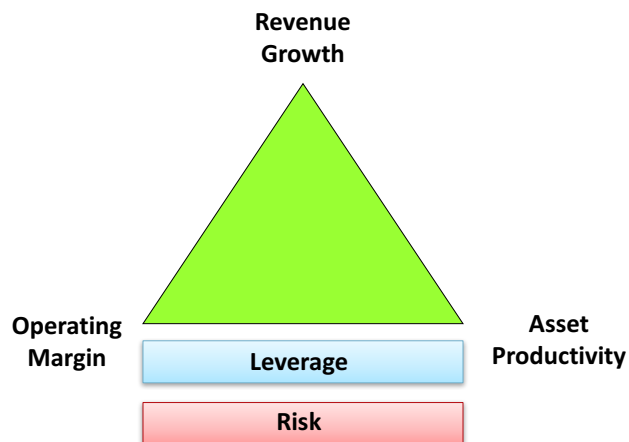
## Goal of the CEO

- Provide Shareholder Value
- Drivers of Shareholder Value
  - Revenue Growth
  - Operating Margin
  - Asset Productivity

Supply chain professionals can affect all three!

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## Drivers of shareholder value



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# Sunflower Nutraceutical (SNC) analysis

## Decisions Phase 1: 2013 - 2015

### Acquire a New Customer

Leverage Supplier Discount

Tighten Accounts Receivable

Drop Poorly Selling Products

### Opportunities Selected

No opportunities selected yet.

Submit Decisions



SNC is considering an opportunity to add Atlantic Wellness, a large, successful health food chain as a new corporate customer for its herbal nutraceutical product line. Taking on this customer would immediately increase SNC's sales by \$4 million per year (a one-time increase of 40%) and EBIT by \$260,000. The profit margins and net working capital terms would remain the same as for SNC's existing business.

What would you like to do about this opportunity?

Accept

Decline

	2013	2014	2015	Post 2015
<b>Incremental Summary Income Statement (\$ in thousands)</b>				
Sales	\$4,000	\$4,000	\$4,000	\$4,000
Cost of Sales	\$3,740	\$3,740	\$3,740	\$3,740
EBIT	\$260	\$260	\$260	\$260
<b>Incremental Balance Sheet (\$ in thousands)</b>				
Accounts Receivable	\$1,205	\$1,205	\$1,205	\$1,205
Inventories	\$922	\$922	\$922	\$922
Accounts Payable	\$420	\$420	\$420	\$420

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# Sunflower Nutraceutical (SNC) analysis

## Decisions Phase 1: 2013 - 2015

Acquire a New Customer

Leverage Supplier Discount

Tighten Accounts Receivable

Drop Poorly Selling Products

### Opportunities Selected

No opportunities selected yet.

Submit Decisions



SNC is considering working with Nutrilife on a half-size contract for its herbal nutraceutical product line, with an incremental sales benefit to the top line of \$2 million (a one-time 20% increase). In addition, Ayurveda Naturals, the India-based supplier of herbs for the Nutrilife contract, is offering very favorable payment terms: 2/30 net 60. In other words, SNC could lower its accounts payable liability to \$153,000 by paying Ayurveda Naturals within 30 days, thereby realizing a 2% discount on raw materials.

What would you like to do about this opportunity?

Accept

Decline

	2013	2014	2015	Post 2015
<b>Incremental Summary Income Statement (\$ in thousands)</b>				
Sales	\$2,000	\$2,000	\$2,000	\$2,000
Cost of Sales	\$1,833	\$1,833	\$1,833	\$1,833
EBIT	\$167	\$167	\$167	\$167
<b>Incremental Balance Sheet (\$ in thousands)</b>				
Accounts Receivable	\$603	\$603	\$603	\$603
Inventories	\$452	\$452	\$452	\$452
Accounts Payable	\$151	\$151	\$151	\$151

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# Sunflower Nutraceutical (SNC) analysis

## Decisions Phase 1: 2013 - 2015

Acquire a New Customer

Leverage Supplier Discount

Tighten Accounts Receivable

Drop Poorly Selling Products

[No Title]

### Opportunities Selected

No opportunities selected yet.

Submit Decisions



SNC is considering evaluating the payment profile of its customer base, especially focusing on customers who are chronically delinquent in paying invoices. Super Sports Centers—a national, mall-based, upscale fitness network and a key SNC customer (accounting for 20% of SNC's overall sales)—routinely takes almost 200 days to pay its invoices. That far exceeds the 90-day average collection period for SNC's other customers. If SNC drops Super Sports Centers from its customer base, sales will decrease by \$2 million. However, the cash-flow measure of days sales outstanding (DSO) will quickly improve.

What would you like to do about this opportunity?

Accept

Decline

	2013	2014	2015	Post 2015
<b>Incremental Summary Income Statement (\$ in thousands)</b>				
Sales	-\$2,000	-\$2,000	-\$2,000	-\$2,000
Cost of Sales	-\$1,870	-\$1,870	-\$1,870	-\$1,870
EBIT	-\$130	-\$130	-\$130	-\$130
<b>Incremental Balance Sheet (\$ in thousands)</b>				
Accounts Receivable	-\$1,096	-\$1,096	-\$1,096	-\$1,096
Inventories	-\$461	-\$461	-\$461	-\$461
Accounts Payable	-\$210	-\$210	-\$210	-\$210

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Sunflower Nutraceuticals is planning to review the order frequency of individual products through stock-keeping units (SKUs) over the last 12 months. Although Sunflower carries over 100 different SKUs, certain types of products—such as vitamins for specific life stages, less popular herbs, and other products—are not everyday purchases for most consumers, so those items take up space in the physical inventory but have a low turnover. If Sunflower eliminates these slower-moving items from the inventory, the company's sales will decrease by \$1 million and EBIT will decrease by \$65,000. Reducing the size of Sunflower's overall product offerings will lower the Days Sales of Inventory (DSI) to a more desirable 86 days. These changes are reflected in the assumptions provided below.

What would you like to do about this opportunity?

Accept

Decline

	2013	2014	2015	Post 2015
<b>Incremental Summary Income Statement (\$ in thousands)</b>				
Sales	-\$1,000	-\$1,000	-\$1,000	-\$1,000
Cost of Sales	-\$935	-\$935	-\$935	-\$935
EBIT	-\$65	-\$65	-\$65	-\$65
<b>Incremental Balance Sheet (\$ in thousands)</b>				
Accounts Receivable	-\$301	-\$301	-\$301	-\$301
Inventories	-\$323	-\$323	-\$323	-\$323
Accounts Payable	-\$105	-\$105	-\$105	-\$105