

Mr. MICHELOTTI. I am finished.

I just mentioned we are doing a feasibility study to see what we can do about paying acquisition costs.

We have had experience in the past. From 1962 through 1968, we paid at acquisition cost, and our experience in monitoring was—I wasn't with the Department of Health at the time—but I am told it was horrendous, that our administrative costs for monitoring the effort was just not cost effective.

So in 1968 we redefined acquisition costs to be the cost listed in Red Book and Blue Book and we even further clarified that in 1971, with the new regulations that came along with medical reform. So it is clearly indicated what we are talking about as acquisition costs being the average wholesale price listed in Red Book and Blue Book.

Incidentally, just yesterday I was talking with Red Book staff at Oradel, N.J., and I asked them how do they establish this average wholesale price, and the indication to me at that time was that they have the tapes, the inventory tapes from large pharmaceutical wholesalers—they specified McKesson, Foremost-McKesson and Bergen-Brunswick. They add the two prices together and divide by two and this gives them an indication of the national picture, and then they also use smaller wholesale firms, I suppose here on the east coast, to verify they have a ball park figure as an average wholesale price.

I really think that is a fair indication of what would be an average price, because both Brunswick and McKesson are national firms and they are competing with firms of equal size—while there aren't any other firms of quite that equal size, but firms such as AMFAC, another major wholesaler and a number of independent wholesalers. So if they are doing business, their prices must reflect what is the going marketplace price for a commodity, again, purchased as a single item, you know, on a single invoice. However, those companies obviously have purchase programs for pharmacies and many pharmacies and many pharmacists participate.

The CHAIRMAN. You made reference, as I recall it, to prednisone in your testimony.

Mr. MICHELOTTI. That is correct.

The CHAIRMAN. Have the figures, the prices, you used changed?

Mr. MICHELOTTI. They have changed considerably.

The CHAIRMAN. But some of the period you were referring to, about 4 years ago, you had prednisone in the marketplace and the wholesalers price varied, from as you said, less than a dollar to \$17, in fact it went from 60 cents from the Wolins Co., 80 cents from the American Pharmaceutical Co., and then on up, \$2 and a quarter for Merck's, and then \$17.88 or \$17.90 for Schering's Meticorten. Anyway—there are 22 of them in the marketplace—ranging from more than 60 cents a hundred to Schering's Meticorten at \$17.90 a hundred. Do you bet an average wholesale price out of that.

Mr. MICHELOTTI. No. Average wholesale price as listed in the red book is a price for, say for example, Schering's Meticorten. Brunswick might market Schering's Meticorten to the retailer for \$17.95. McKesson, on the other hand, might market it to a retailer for—

The CHAIRMAN. You mean to say these companies weren't marketing Meticorten. They were marketing prednisone?

Mr. MICHELOTTI. I am sorry, I am speaking to the references of average wholesale price.