

The CHAIRMAN. I am trying to get straight in my mind if you will reimburse at the average wholesale price.

Mr. MICHELOTTI. At the average wholesale price for a given drug product as opposed to a generic drug type, which includes many companies' drug products.

The CHAIRMAN. So you have 22 prednisones on the market varying in price from 60 cents a hundred wholesale from one company to \$17.90 for the highest price one. How do you determine the average wholesale price?

Mr. MICHELOTTI. There are two things we have to recognize, average wholesale price and then a ceiling price, however, you want to name it.

The CHAIRMAN. When you say average wholesale price—

Mr. MICHELOTTI. I have to talk about wholesale, I will try to illustrate that to you.

As I started to mention, Bergen-Brunswig will market to the retailer Schering's prednisone called Meticorten for \$17.95. Now, Schering's Meticorten will be marketed to the retailer by McKesson for \$17.50, a difference of 45 cents. OK? I am saying that Red Book adds the two together, divides them by two, and they come up with an average wholesale price, listed in the Red Book—

The CHAIRMAN. If you say there are several wholesalers of Meticorten, and one of them is selling it at \$16 a 100 and one at \$17.90, you average the price of Meticorten?

Mr. MICHELOTTI. We don't, Red Book does. That is how they get their average wholesale price that they list.

The CHAIRMAN. You mean if somebody prescribes prednisone, you take the average wholesale price of the Meticorten and reimburse them?

Mr. MICHELOTTI. I am getting to that. Our program has decided within the generic drug prednisone, there are these companies' products priced from a few cents up to several dollars. I believe our ceiling price at that time was \$4.50. OK? We will pay for a drug product whose price is listed in the Red Book or Blue Book, if the drug product is available at a price of \$4.50 or less. For those products who have an average wholesale price listed more than \$4.50, we will pay up to \$4.50, and no more than \$4.50.

The CHAIRMAN. You mean that drug made of the same compound?

Mr. MICHELOTTI. Yes, drug products within generic drug type.

The CHAIRMAN. Well, you are dealing with the same compound. When you say drug products, you mean a drug under a different name, produced by different manufacturers?

Mr. MICHELOTTI. Yes, but with the same chemical entity.

The CHAIRMAN. How do you get out of prednisone a price of \$4.50?

Mr. MICHELOTTI. We take a look at all the available average wholesale prices of those drug products that are available in the marketplace, as you pointed out, some 22. At some point, we determine a drug product for which we can be comfortable with: Statewide availability through usual and customary channels, the therapeutic efficacy of that drug, and the indicated safety of the drug; in other words, whether the drug had been the subject of a number of recalls.

The CHAIRMAN. Well, I am starting with the assumption they all meet the standards and are all available.