



# **Impact of Medicare Part D on Independent Community Pharmacies: A 4-Year Trend**

## **Final Report**

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## OVERVIEW

This report details the results of a descriptive analysis of prescription claims data for independent pharmacies in Texas since the implementation of the Medicare Part D outpatient drug benefit in January 2006. Prescription claims data from 386 independently owned pharmacies in Texas were used to map quarterly trends in patient demographics, prescription drug utilization, and gross margins over four years (2006 – 2009). Overall results are provided first, followed by comparisons among three payer groups: Medicaid, Medicare Part D, and other third party plans.

## DATA SOURCE

Prescription claims data were provided by Data Rx Management (Cumming, GA), a drug claims processing company. The dataset for this study was limited to their Texas clients. However, Data Rx processes prescription claims (~ 3 million/month) for more than 1000 independent pharmacies nationwide. Table 1 shows the number of independent pharmacies by state serviced by Data Rx Management. More than half of the pharmacies are located in Florida, Georgia, and Texas.

Table 1. Number of Data Rx Independent Pharmacy Clients by State

State	Number of Clients	State	Number of Clients
Alabama	13	Mississippi	3
Arkansas	13	North Carolina	7
Arizona	11	North Dakota	1
California	61	Nebraska	6
Colorado	9	Nevada	5
Florida	107	New Jersey	2
Georgia	158	New Mexico	6
Iowa	16	New York	3
Idaho	4	Ohio	7
Illinois	20	Oklahoma	18
Indiana	2	Oregon	16
Kansas	31	Pennsylvania	18
Kentucky	22	South Carolina	6
Louisiana	48	South Dakota	5
Massachusetts	4	Tennessee	33
Maryland	3	Texas	386
Maine	1	Utah	2
Minnesota	1	Washington	32
Missouri	84	Wisconsin	2

Total n = 1166

## OVERALL FINDINGS (not separated by payer)

### Patient Demographics

A total of 386 Texas independent community pharmacies had nearly 53 million prescription drug claims for 1,990,400 patients between January 1, 2006 and December 31, 2009. The total number of patients increased by 30.4% over the study period from 819,193 in 2006 to 1,068,479 in 2009. (There were 1,008,690 total patients in 2007 and 1,010,818 in 2008). Nearly 60% of patients were female with a mean age of 48.5 years (median age ranged from 50-53 among study quarters). (Table 2) With the addition of several pharmacies to Data Rx's clientele in Q4 2006, there was a notable increase (28.6%) in the number of patients between Q3 and Q4 of 2006.

Table 2. Number of Patients and Demographics by Quarter, 2006 – 2009

Year	Quarter	N (% Female)	Mean Age (SD) [Median]
2006	Q1	412,476 (58.5%)	47.5 (26.8) [50.0]
	Q2	401,113 (58.7%)	48.0 (26.3) [51.0]
	Q3	406,696 (58.6%)	47.8 (26.1) [51.0]
	Q4	523,017 (58.1%)	49.1 (25.7) [52.0]
2007	Q1	566,784 (57.8%)	48.5 (26.4) [52.0]
	Q2	517,878 (58.3%)	49.7 (25.5) [53.0]
	Q3	514,135 (58.3%)	48.5 (26.4) [52.0]
	Q4	550,205 (57.9%)	49.7 (25.5) [53.0]
2008	Q1	569,826 (57.6%)	48.1 (25.8) [51.0]
	Q2	520,383 (58.1%)	49.1 (25.3) [52.0]
	Q3	492,096 (58.4%)	49.6 (24.6) [53.0]
	Q4	549,030 (57.8%)	48.1 (25.3) [52.0]
2009	Q1	572,939 (57.5%)	48.5 (25.2) [52.0]
	Q2	558,326 (57.9%)	48.6 (24.7) [52.0]
	Q3	547,407 (58.0%)	48.5 (24.8) [52.0]
	Q4	538,189 (57.4%)	47.3 (25.3) [51.0]

### Number of Drug Claims

The number of prescription claims increased by 38.6% between 2006 and 2009, from 10.4 million to 14.4 million. (Table 3) Slightly less than 20% of the total number of study claims were processed in 2006. As seen in Table 4, the mean number of claims per patient per month remained fairly constant throughout the study period. The proportion of generic claims increased from 58.7% in Q1 2006 to 70.3% in Q4 2009. (Figure 1)

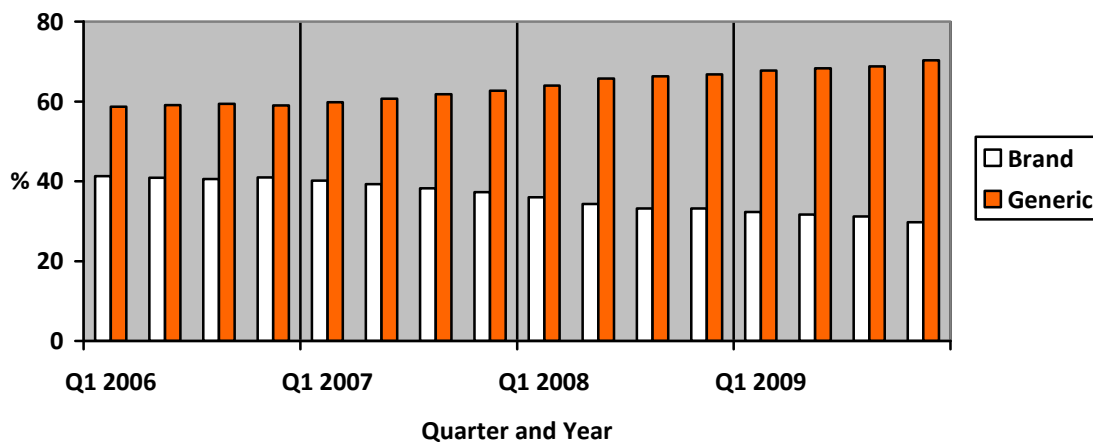
Table 3. Number of Prescription Drug Claims by Year

Year	Number of Claims (%)
2006	10,424,538 (19.8)
2007	13,953,264 (27.1)
2008	13,888,342 (26.9)
2009	14,448,169 (28.1)
Total	52,714,313 (100.0)

Table 4. Number of Prescription Drug Claims, Percent Generic Drug Claims, and Claims per Patient per Month by Quarter, 2006 – 2009

Year	Quarter	Number of Claims (% Generic)	Mean Claims/Pt/Mo (SD) [Median]
2006	Q1	2,353,264 (58.7%)	2.8 (2.5) [2.0]
	Q2	2,347,819 (59.1%)	2.8 (2.3) [2.0]
	Q3	2,378,783 (59.4%)	2.8 (2.3) [2.0]
	Q4	3,344,672 (59.0%)	2.9 (2.8) [2.0]
2007	Q1	3,577,958 (59.8%)	2.9 (2.8) [2.0]
	Q2	3,395,756 (60.7%)	2.9 (2.8) [2.0]
	Q3	3,321,817 (61.8%)	2.9 (2.7) [2.0]
	Q4	3,657,733 (62.7%)	3.0 (3.0) [2.0]
2008	Q1	3,786,582 (64.0%)	3.0 (3.0) [2.0]
	Q2	3,484,972 (65.7%)	3.0 (2.9) [2.0]
	Q3	2,885,109 (66.3%)	2.8 (2.6) [2.0]
	Q4	3,731,679 (66.8%)	3.0 (3.1) [2.0]
2009	Q1	3,736,416 (67.7%)	3.0 (3.1) [2.0]
	Q2	3,673,031 (68.3%)	3.0 (2.9) [2.0]
	Q3	3,527,969 (68.8%)	2.9 (2.8) [2.0]
	Q4	3,510,753 (70.3%)	3.0 (3.1) [2.0]

Figure 1. Percent Brand and Generic Drug Claims by Quarter



## Top 10 Drug Products

Table 5 displays the 10 most frequent drug products (by number of claims) in the database by year. Claims for the top 10 products accounted for approximately 15% of annual total prescription claims. Hydrocodone/acetaminophen (APAP) had the largest number of claims every year. Amoxicillin, azithromycin, furosemide, hydrocodone/APAP, lisinopril, and Nexium<sup>®</sup> were among the top 10 drug products for all four years. Generic products accounted for six and eight of the top 10 products in 2006 and 2007, respectively. All but one of the top 10 drugs were generic products in 2008 and 2009.

Table 5. Top 10 Drug Products by Number of Claims, 2006 – 2009

Rank	2006	2007	2008	2009
1	Hydrocodone/APAP 453,980	Hydrocodone/APAP 411,960	Hydrocodone/APAP 472,276	Hydrocodone/APAP 364,000
2	Propoxyphene N/ APAP 138,375	Azithromycin 227,005	Azithromycin 241,211	Azithromycin 240,373
3	Furosemide 134,918	Ibuprofen 192,757	Lisinopril 206,682	Lisinopril 234,671
4	Lipitor <sup>®</sup> 131,507	Lisinopril 188,778	Ibuprofen 193,510	Levothyroxine 221,457
5	Toprol XL <sup>®</sup> 122,825	Furosemide 184,038	Levothyroxine 186,196	Simvastatin 218,738
6	Lisinopril 122,156	Amoxicillin 177,242	Simvastatin 181,339	Ibuprofen 199,608
7	Nexium <sup>®</sup> 108,919	Lipitor <sup>®</sup> 167,212	Furosemide 176,440	Furosemide 183,722
8	Amoxicillin 104,245	Nexium <sup>®</sup> 158,217	Amoxicillin 176,309	Amoxicillin 172,030
9	Azithromycin 103,632	Levothyroxine 156,299	Metoprolol ER 161,684	Nexium <sup>®</sup> 164,273
10	Norvasc <sup>®</sup> 96,088	Simvastatin 147,546	Nexium <sup>®</sup> 157,531	Amlodipine 156,125

## Patient Out-of-Pocket Payments

Table 6 shows that the average out-of-pocket expense per prescription claim ranged from \$11 to \$14 between 2006 and 2009. The median out-of-pocket expense per claim was \$5.00 in the first quarter of 2006, which decreased to \$3.20 in the last quarter of 2009. Figure 2 graphically displays how out-of-pocket expenses per claim were lower in Q4 of each year compared to Q1. The same trend is shown in Figure 3 for monthly patient out-of-pocket expenses. The median out-of-pocket payment per patient per month is highest at the beginning of each year, perhaps due to deductible requirements. It is important to note that most Medicaid prescription claims are not associated with out-of-pocket costs. With the inclusion of these patients in Table 6, the overall results may seem lower than expected. Out-of-pocket payments are reported by payer (i.e., Medicaid, Medicare, and other third party) in Tables 14 and 15.

Table 6. Patient Out-of-Pocket Payments per Claim and per Month by Quarter, 2006 – 2009

Year	Quarter	Mean Pt OOP/Claim (SD) [Median]	Mean Pt OOP/Month (SD) [Median]
2006	Q1	\$13.35 (28.08) [5.00]	\$39.36 (70.26) [19.30]
	Q2	\$12.56 (26.03) [5.00]	\$36.00 (65.99) [16.33]
	Q3	\$12.31 (27.07) [5.00]	\$34.90 (67.37) [15.00]
	Q4	\$11.74 (22.79) [4.19]	\$35.09 (60.96) [15.00]
2007	Q1	\$11.92 (21.89) [5.00]	\$36.63 (57.87) [18.00]
	Q2	\$12.02 (24.33) [5.00]	\$36.47 (67.07) [16.04]
	Q3	\$12.47 (26.01) [4.98]	\$37.41 (70.88) [15.00]
	Q4	\$11.14 (22.34) [3.28]	\$34.48 (59.18) [15.00]
2008	Q1	\$11.62 (23.28) [4.00]	\$37.08 (61.29) [17.73]
	Q2	\$11.80 (26.40) [4.00]	\$36.51 (71.39) [15.00]
	Q3	\$12.20 (27.87) [4.00]	\$36.78 (71.61) [15.00]
	Q4	\$11.74 (27.54) [3.10]	\$37.17 (72.88) [14.72]
2009	Q1	\$12.25 (25.98) [5.00]	\$38.81 (68.48) [16.81]
	Q2	\$12.01 (26.91) [4.80]	\$37.41 (72.03) [15.38]
	Q3	\$12.16 (28.63) [3.86]	\$38.00 (75.10) [15.00]
	Q4	\$11.86 (28.19) [3.20]	\$37.39 (73.65) [15.00]

OOP = out of pocket

Figure 2. Median Patient Out-of-Pocket Payment per Claim by Quarter

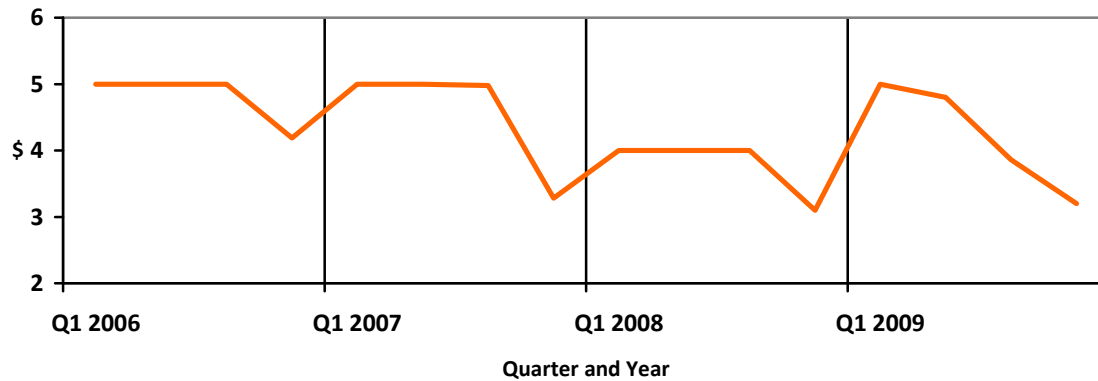
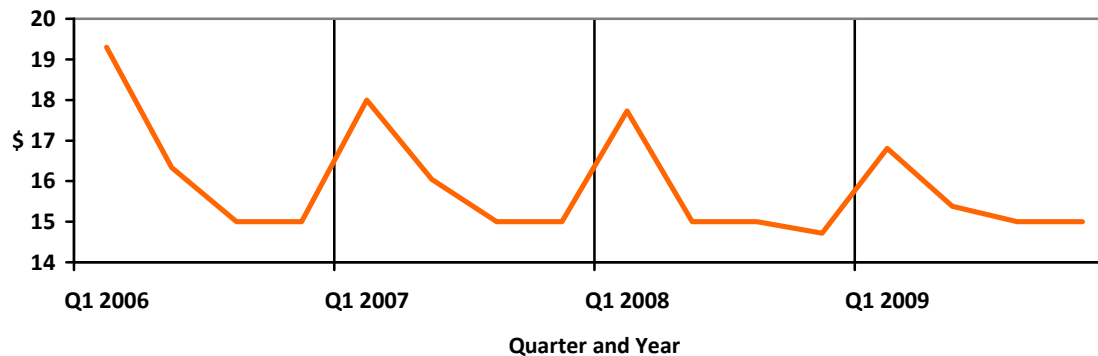


Figure 3. Median Patient Out-of-Pocket Payment per Month by Quarter



## Claims Financial Analysis

The database used in this study contained an ingredient cost variable which represented the third party payment amount to the pharmacy for the drug product. Thus, this variable most likely does not represent the pharmacy's *actual* acquisition cost of purchasing the drug. The database also contained the amount the patient paid (e.g., copayment, deductible) and the total payment by the third party to the pharmacy. Pharmacy gross margin (GM) was calculated by subtracting the mean drug ingredient cost from the mean total pharmacy revenue (patient payment + third party payment). GMs are used to pay for other operational expenses (e.g., salaries, wages, rent) of the pharmacy. The GM percent is calculated as revenues less ingredient costs divided by revenues. Table 7 depicts ingredient costs, patient payments, and third party payments per claim. Lastly, it shows the GMs and percentages by quarter.

Table 7. Ingredient Cost, Patient Out-of-Pocket Payment, Third Party Payment, Gross Margin (GM), and GM Percent per Claim by Quarter, 2006 – 2009

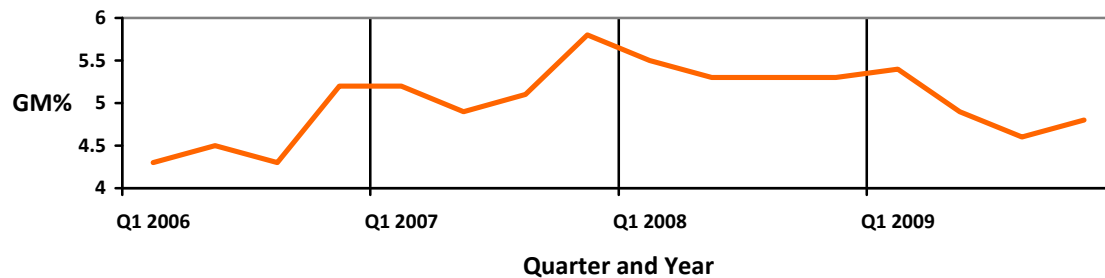
Year	Quarter	\$ Mean (SD) [Median]			Gross Margin (% Margin)
		Ingredient Cost	Pharmacy Revenue		
			Patient Payment	Third Party Payment	
2006	Q1	\$53.81 (125.84) [24.59]	\$13.35 (28.08) [5.00]	\$42.86 (118.90) [13.98]	\$2.40 (4.3%)
	Q2	\$55.49 (110.43) [24.66]	\$12.56 (26.03) [5.00]	\$45.52 (106.45) [15.22]	\$2.59 (4.5%)
	Q3	\$56.05 (126.77) [24.69]	\$12.31 (27.70) [5.00]	\$46.27 (122.75) [15.31]	\$2.53 (4.3%)
	Q4	\$54.35 (78.93) [25.50]	\$11.74 (22.79) [4.19]	\$45.60 (76.37) [16.68]	\$2.99 (5.2%)
2007	Q1	\$54.29 (79.87) [24.89]	\$11.92 (21.89) [5.00]	\$45.33 (76.64) [16.41]	\$2.96 (5.2%)
	Q2	\$55.73 (82.92) [24.46]	\$12.02 (24.33) [5.00]	\$46.61 (79.32) [16.46]	\$2.90 (4.9%)
	Q3	\$56.32 (84.81) [23.56]	\$12.47 (26.01) [4.98]	\$46.88 (81.46) [15.83]	\$3.03 (5.1%)
	Q4	\$54.91 (83.79) [22.40]	\$11.15 (22.34) [3.28]	\$47.17 (81.40) [16.48]	\$3.41 (5.8%)
2008	Q1	\$58.15 (113.50) [21.96]	\$11.62 (23.28) [4.00]	\$49.93 (110.73) [16.31]	\$3.40 (5.5%)
	Q2	\$58.19 (100.16) [20.28]	\$11.80 (26.40) [4.00]	\$49.67 (96.28) [15.50]	\$3.28 (5.3%)
	Q3	\$57.98 (92.57) [19.20]	\$12.20 (27.87) [4.00]	\$49.03 (88.52) [14.75]	\$3.25 (5.3%)
	Q4	\$60.91 (134.25) [18.41]	\$11.74 (27.54) [3.10]	\$52.61 (131.68) [14.59]	\$3.44 (5.3%)
2009	Q1	\$57.10 (92.96) [18.00]	\$12.25 (25.98) [5.00]	\$48.11 (88.40) [13.70]	\$3.26 (5.4%)
	Q2	\$58.01 (94.97) [17.65]	\$12.01 (26.91) [4.80]	\$49.02 (90.20) [13.70]	\$3.02 (4.9%)
	Q3	\$63.96 (149.31) [17.55]	\$12.17 (28.63) [3.86]	\$54.85 (146.04) [13.68]	\$3.06 (4.6%)
	Q4	\$62.23 (149.91) [17.09]	\$11.86 (28.19) [3.20]	\$53.54 (146.81) [13.53]	\$3.17 (4.8%)



## Overall Results

Using the available data, we found that overall mean ingredient costs, pharmacy revenues (patient payments + third party payments), and gross margins per claim increased over the course of the study. (Table 7) Comparing Q1 2006 to Q4 2009, the following increases in mean values were observed: 15.6% in ingredient costs, 16.3% in revenue, and 32.1% in gross margins. The standard deviations around the means were large, however. When using medians as the central tendency measure, we found that ingredient costs, patient out-of-pocket expenditures, and third party payments all decreased slightly over time. Figure 4 shows that the mean GM percent was 4% in most of 2006, and over 5% in most of 2007 and all of 2008. However, it fell back into the 4 – 5% range in 2009.

Figure 4. Gross Margin Percent per Claim by Quarter



## Brand Financials

As seen in Table 8, we found that mean ingredient costs, patient out-of-pocket expenditures, third party payments, and gross margins per claim increased over time. Mean values increased by 51.5%, 52.3%, and 104.8% for ingredient costs, revenue, and gross margins, respectively, between Q1 2006 to Q4 2009. Median ingredient costs and third party payments also increased, while median patient out-of-pocket expenditures decreased. The mean GM percent for brand prescription claims was as high as 3% in late 2007, but closer to 2% in late 2009.

## Generic Financials

Table 9 shows that, over the study period, mean ingredient costs and pharmacy revenue per generic claim gradually increased (both by 7.8% between Q1 2006 and Q4 2009). Gross margin also increased until 2008, and then fell slightly in 2009. Median ingredient costs and third party payments per generic claim fluctuated between \$9 – \$10 and \$7 – \$9, respectively. Median patient out-of-pocket payments decreased from \$3.93 in Q1 2006 to \$2.40 in Q4 2009. GM% for generic drug claims increased from 12% Q1 2006 to nearly 14% by the end of 2007, but returned to 12% by the end of 2009. The trend of GM% over the study period is shown in Figure 5.

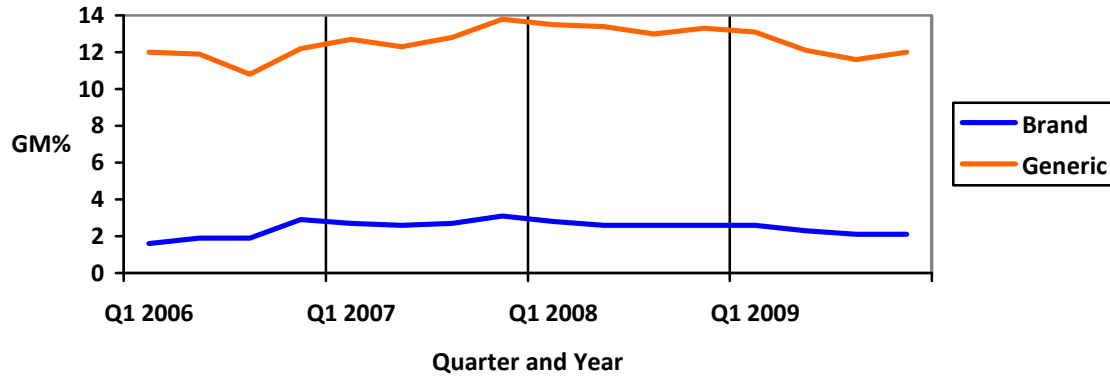
Table 8. Ingredient Cost, Patient Out-of-Pocket Payment, Third Party Payment, Gross Margin (GM), and GM Percent per BRAND Claim by Quarter, 2006 – 2009

Year	Quarter	\$ Mean (SD) [Median]			Mean Gross Margin (% Margin)
		Ingredient Cost	Pharmacy Revenue		
			Patient Payment	Third Party Payment	
2006	Q1	\$102.88 (151.28) [76.77]	\$22.90 (38.83) [15.01]	\$81.63 (142.99) [55.92]	\$1.65 (1.6%)
	Q2	\$107.62 (149.41) [81.14]	\$21.77 (36.46) [16.14]	\$87.97 (147.94) [61.41]	\$2.12 (1.9%)
	Q3	\$108.80 (167.77) [81.81]	\$21.45 (39.79) [14.80]	\$89.42 (165.22) [62.01]	\$2.07 (1.9%)
	Q4	\$101.83 (96.76) [80.86]	\$20.14 (30.77) [10.00]	\$84.73 (98.73) [62.61]	\$3.04 (2.9%)
2007	Q1	\$104.79 (97.36) [83.88]	\$21.04 (29.55) [15.00]	\$86.71 (98.81) [65.51]	\$2.96 (2.7%)
	Q2	\$109.96 (101.52) [87.90]	\$21.70 (33.86) [15.00]	\$91.19 (102.77) [69.10]	\$2.93 (2.6%)
	Q3	\$113.66 (105.22) [90.16]	\$22.92 (36.87) [12.00]	\$93.87 (107.35) [70.80]	\$3.13 (2.7%)
	Q4	\$113.04 (105.62) [89.95]	\$20.20 (31.86) [8.10]	\$96.48 (108.26) [73.11]	\$3.64 (3.1%)
2008	Q1	\$123.82 (156.96) [93.50]	\$21.98 (33.45) [13.10]	\$105.43 (158.12) [75.48]	\$3.59 (2.8%)
	Q2	\$129.88 (133.65) [100.90]	\$23.60 (39.64) [15.00]	\$109.76 (134.85) [80.75]	\$3.48 (2.6%)
	Q3	\$131.21 (119.22) [102.46]	\$24.83 (42.18) [12.00]	\$109.92 (121.77) [82.10]	\$3.54 (2.6%)
	Q4	\$140.83 (195.93) [101.85]	\$23.93 (42.06) [9.00]	\$120.72 (198.10) [82.91]	\$3.82 (2.6%)
2009	Q1	\$133.58 (121.45) [104.92]	\$25.38 (39.17) [18.00]	\$111.80 (122.87) [84.46]	\$3.60 (2.6%)
	Q2	\$137.30 (124.20) [108.07]	\$25.25 (41.28) [17.87]	\$115.30 (125.33) [86.71]	\$3.25 (2.3%)
	Q3	\$156.14 (223.44) [112.63]	\$25.95 (44.45) [14.99]	\$133.50 (225.02) [89.91]	\$3.31 (2.1%)
	Q4	\$155.87 (230.24) [112.45]	\$25.67 (44.35) [10.95]	\$133.58 (231.90) [89.42]	\$3.38 (2.1%)

Table 9. Ingredient Cost, Patient Out-of-Pocket Payment, Third Party Payment, Gross Margin (GM), and GM Percent per GENERIC Claim by Quarter, 2006 – 2009

Year	Quarter	\$ Mean (SD) [Median]			Mean Gross Margin (% Margin)
		Ingredient Cost	Pharmacy Revenue		
			Patient Payment	Third Party Payment	
2006	Q1	\$20.95 (92.37) [9.61]	\$7.03 (14.35) [3.93]	\$16.79 (91.31) [7.19]	\$2.87 (12.0%)
	Q2	\$21.23 (51.03) [9.67]	\$6.60 (12.66) [3.56]	\$17.50 (49.52) [7.51]	\$2.87 (11.9%)
	Q3	\$23.13 (75.00) [9.90]	\$6.67 (13.27) [3.18]	\$19.25 (73.86) [7.75]	\$2.79 (10.8%)
	Q4	\$21.37 (37.43) [9.51]	\$5.91 (11.82) [2.00]	\$18.42 (36.20) [8.16]	\$2.96 (12.2%)
2007	Q1	\$20.32 (37.74) [9.67]	\$5.78 (10.97) [2.60]	\$17.49 (36.48) [8.24]	\$2.95 (12.7%)
	Q2	\$20.57 (38.84) [9.72]	\$5.75 (11.50) [2.50]	\$17.70 (37.40) [8.26]	\$2.88 (12.3%)
	Q3	\$20.86 (38.77) [9.94]	\$6.10 (12.02) [2.53]	\$17.81 (37.43) [8.54]	\$3.05 (12.8%)
	Q4	\$20.34 (36.82) [10.01]	\$5.76 (10.69) [2.15]	\$17.83 (35.90) [9.44]	\$3.25 (13.8%)
2008	Q1	\$21.20 (49.78) [10.00]	\$5.80 (11.08) [2.82]	\$18.70 (48.82) [9.43]	\$3.30 (13.5%)
	Q2	\$20.68 (42.89) [9.79]	\$5.63 (11.33) [2.25]	\$18.24 (41.58) [9.18]	\$3.19 (13.4%)
	Q3	\$20.81 (40.00) [9.66]	\$5.80 (12.07) [2.25]	\$18.13 (38.06) [8.99]	\$3.12 (13.0%)
	Q4	\$21.26 (56.38) [9.53]	\$5.69 (12.11) [2.25]	\$18.83 (55.05) [9.06]	\$3.26 (13.3%)
2009	Q1	\$20.69 (40.29) [9.25]	\$6.01 (12.04) [3.00]	\$17.79 (38.70) [8.40]	\$3.11 (13.1%)
	Q2	\$21.22 (42.18) [9.31]	\$5.87 (12.26) [2.75]	\$18.28 (40.51) [8.37]	\$2.93 (12.1%)
	Q3	\$22.24 (64.77) [9.32]	\$5.93 (13.08) [2.40]	\$19.24 (63.19) [8.51]	\$2.93 (11.6%)
	Q4	\$22.59 (65.29) [9.51]	\$6.01 (13.53) [2.40]	\$19.66 (63.64) [8.80]	\$3.08 (12.0%)

Figure 5. Gross Margin Percent per Brand and Generic Claim by Quarter



**COMPARISONS AMONG PAYERS (MEDICAID, MEDICARE PART D, OTHER THIRD PARTY)**

***Patient Demographics***

Figure 6 and Table 10 depict patient demographic characteristics (gender and age) while controlling for payer group (i.e., Medicaid, Medicare, and other third party payer). The proportion of female Medicare patients fell from 63.4% in Q1 2006 to 60.6% in Q4 2009. There was a slight decrease in the proportion of female patients for the Medicaid and other third party payer groups as well. Table 10 shows that the median age of Medicaid patients during the study ranged from 19 to 24; 71 to 74 for Medicare patients; and 49 to 51 for other third party patients.

Figure 6. Percent Female by Payer and Quarter

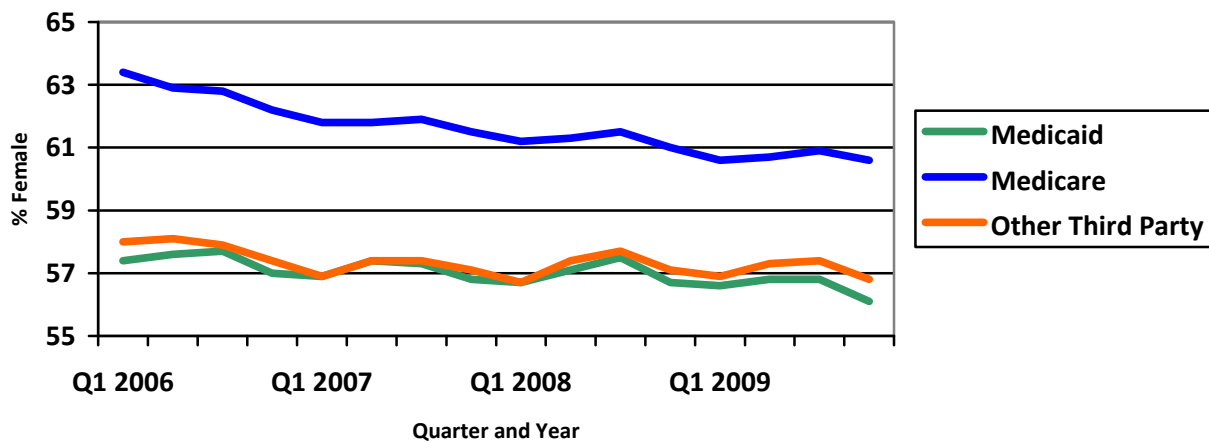
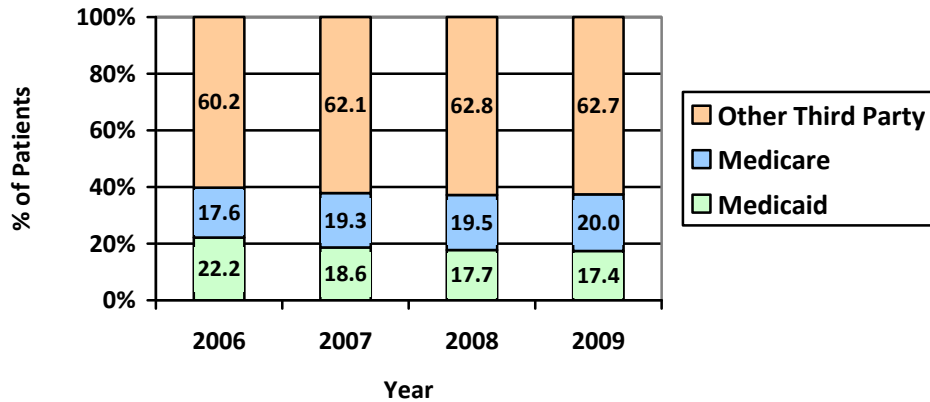


Table 10. Patient Demographics by Payer and Quarter, 2006 – 2009

Year	Quarter	Medicaid		Medicare		Other Third Party	
		N (% Female)	Mean Age (SD) [Median]	N (% Female)	Mean Age (SD) [Median]	N (% Female)	Mean Age (SD) [Median]
2006	Q1	95,554 (57.4)	30.8 (27.0) [19.0]	60,984 (63.4)	67.9 (19.1) [72.0]	255,938 (58.0)	49.3 (24.4) [51.0]
	Q2	91,079 (57.6)	31.3 (27.1) [19.0]	73,308 (62.9)	68.6 (18.0) [72.0]	236,726 (58.1)	48.7 (23.6) [51.0]
	Q3	93,481 (57.7)	31.0 (27.0) [19.0]	79,854 (62.8)	68.5 (17.8) [72.0]	233,361 (57.9)	48.1 (23.0) [50.0]
	Q4	106,156 (57.0)	32.3 (27.2) [20.0]	92,888 (62.2)	70.3 (17.8) [74.0]	323,973 (57.4)	48.6 (22.6) [51.0]
2007	Q1	109,565 (56.9)	32.1 (27.2) [20.0]	104,214 (61.8)	69.3 (18.7) [73.0]	353,005 (56.9)	47.5 (24.0) [50.0]
	Q2	95,098 (57.4)	33.4 (27.2) [23.0]	100,456 (61.8)	69.2 (18.2) [73.0]	322,324 (57.4)	48.5 (22.9) [51.0]
	Q3	94,198 (57.3)	33.1 (27.0) [22.0]	101,924 (61.9)	69.0 (18.1) [73.0]	318,013 (57.4)	48.6 (22.9) [51.0]
	Q4	101,280 (56.8)	31.5 (27.0) [20.0]	108,224 (61.5)	68.5 (18.7) [72.0]	340,701 (57.1)	47.3 (23.3) [50.0]
2008	Q1	100,163 (56.7)	32.5 (27.2) [21.0]	107,084 (61.2)	67.6 (19.0) [72.0]	362,599 (56.7)	46.7 (23.4) [49.0]
	Q2	91,727 (57.1)	33.3 (27.1) [24.0]	100,965 (61.3)	67.9 (18.4) [72.0]	327,691 (57.4)	47.9 (23.0) [50.0]
	Q3	86,539 (57.5)	32.9 (27.0) [23.0]	97,043 (61.5)	67.9 (17.8) [71.0]	308,514 (57.7)	48.6 (21.8) [51.0]
	Q4	98,686 (56.7)	31.1 (26.9) [20.0]	110,000 (61.0)	67.2 (18.6) [71.0]	340,344 (57.1)	46.9 (22.6) [50.0]
2009	Q1	97,235 (56.6)	31.5 (27.0) [21.0]	113,991 (60.6)	67.6 (18.7) [72.0]	361,713 (56.9)	47.2 (22.8) [50.0]
	Q2	96,109 (56.8)	31.6 (26.1) [21.0]	111,656 (60.7)	67.2 (18.6) [71.0]	350,561 (57.3)	47.4 (22.1) [50.0]
	Q3	93,465 (56.8)	31.7 (26.1) [21.0]	111,116 (60.9)	67.2 (18.5) [71.0]	342,826 (57.4)	47.1 (22.2) [50.0]
	Q4	98,017 (56.1)	30.6 (26.0) [20.0]	106,092 (60.6)	66.8 (18.9) [71.0]	334,080 (56.8)	46.0 (22.8) [49.0]

The proportion of patients by payer showed slight variation among the study years. (Figure 7) The proportion of Medicaid patients decreased from 22.2% to 17.4% from 2006 to 2009, while the proportion of Medicare Part D and other third party patients increased slightly.

**Figure 7. Proportion of Patients by Payer and Year**



2009 percentages do not total 100.0 due to rounding error.

**Number of Drug Claims**

The number of Medicaid and other third party prescription claims increased by 25.6% and 24.9%, respectively, between 2006 and 2009. The number of Medicare Part D claims increased by 88.0% over the same time period. (Table 11) Figure 8 graphically depicts how the percent of Medicare claims increased from 21.1% to 28.7% of all claims between 2006 and 2009.

Table 11. Number of Claims by Payer and Year, 2006 – 2009

Year	Number of Claims (row %)		
	Medicaid	Medicare	Other Third Party
2006	2,644,454 (25.4)	2,203,323 (21.1)	5,576,694 (53.5)
2007	3,362,550 (24.1)	3,962,469 (28.4)	6,620,806 (47.4)
2008	3,386,013 (24.4)	3,882,782 (28.0)	6,603,063 (47.5)
2009	3,321,254 (23.0)	4,142,405 (28.7)	6,965,508 (48.2)

Payer was not identified for <1% of claims.

**Figure 8. Percent of Claims by Payer and Year**

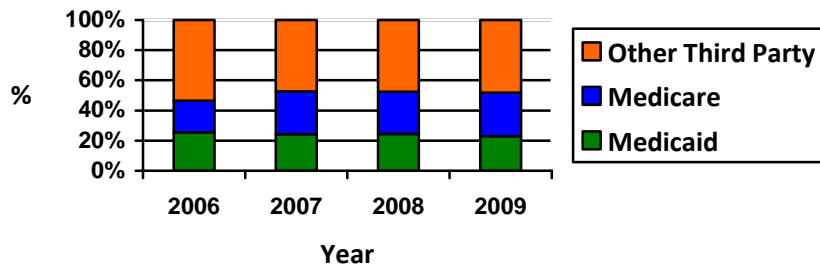


Table 12 shows the number of claims by payer by quarter, as well as generic prescription claim percentages. The proportion of generic claims increased over time for all three payers. In eight out of 16 study quarters, Medicaid had the highest generic utilization rate. Other third party payers had the highest generic use rate in only two of 16 study quarters. Generic drug use increased from 59.5% to 72.4% for Medicaid, 55.9% to 71.1% for Medicare, and 59.0% to 68.6% for other third party plans. (Figure 9)

Table 12. Number of Claims and Percent Generic Drug Claims by Payer and Quarter, 2006 – 2009

Year	Quarter	Number of Claims (% generic)		
		Medicaid	Medicare	Other Third Party
2006	Q1	633,907 (59.5)	355,253 (55.9)	1,364,104 (59.0)
	Q2	576,912 (59.6)	455,822 (56.5)	1,315,085 (59.8)
	Q3	585,746 (59.1)	502,188 (59.3)	1,290,849 (61.6)
	Q4	847,889 (59.1)	890,060 (58.9)	1,606,656 (58.9)
2007	Q1	902,661 (59.9)	972,274 (59.9)	1,702,885 (59.7)
	Q2	784,265 (59.6)	992,298 (61.3)	1,618,170 (60.8)
	Q3	755,029 (59.7)	978,857 (62.8)	1,585,022 (62.1)
	Q4	920,595 (60.3)	1,019,040 (64.2)	1,714,729 (63.0)
2008	Q1	957,758 (62.5)	1,018,414 (65.5)	1,806,445 (63.9)
	Q2	813,452 (66.6)	994,738 (66.5)	1,672,383 (64.6)
	Q3	662,995 (66.9)	840,634 (67.4)	1,377,791 (65.4)
	Q4	951,808 (67.7)	1,028,996 (67.6)	1,746,444 (65.9)
2009	Q1	916,726 (68.4)	1,048,958 (69.2)	1,765,984 (66.6)
	Q2	789,437 (69.4)	1,086,288 (69.7)	1,792,572 (66.9)
	Q3	762,150 (70.3)	1,042,247 (70.1)	1,718,877 (67.4)
	Q4	852,941 (72.4)	964,912 (71.1)	1,688,075 (68.6)

Shaded cells designate the highest generic utilization rate per quarter.

Figure 9. Percent Generic Claims by Payer and Quarter

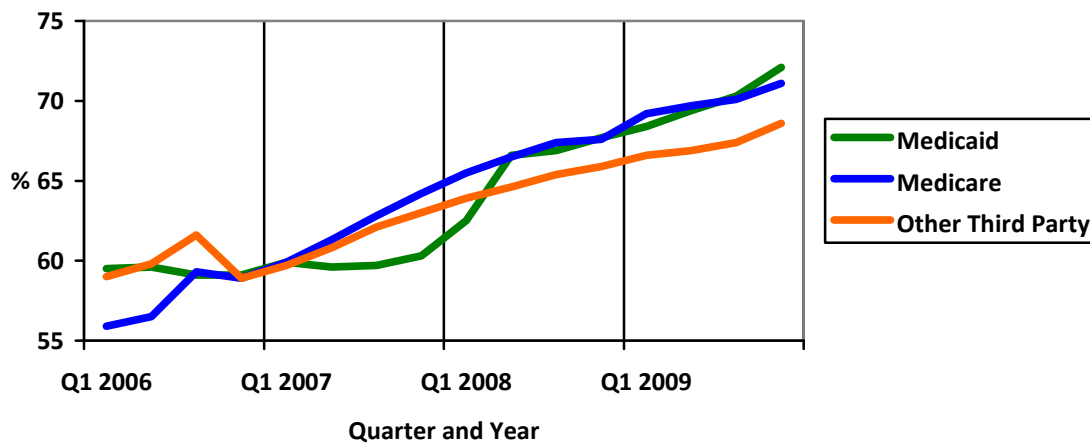


Table 13 presents the number of prescription drug claims per patient per month controlling for payer type. The mean number of claims per patient per month slightly decreased for other third party patients (2.7 to 2.4) and remained fairly constant for Medicare patients (~3.8) throughout the study period. However, for Medicaid patients, the number of prescription drug claims per person increased from 3.2 (Q1 2006) to 3.8 (Q4 2009) claims per month.

Table 13. Claims per Patient per Month by Payer and Quarter, 2006 – 2009

Year	Quarter	Mean Claims/Patient/Month (SD) [Median]		
		Medicaid	Medicare	Other Third Party
2006	Q1	3.2 (3.1) [2.0]	3.8 (2.9) [3.0]	2.7 (2.2) [2.0]
	Q2	3.1 (2.8) [2.0]	3.7 (2.8) [3.0]	2.6 (2.2) [2.0]
	Q3	3.0 (2.7) [2.0]	3.7 (2.7) [3.0]	2.6 (2.2) [2.0]
	Q4	3.6 (3.9) [2.5]	3.9 (3.1) [3.0]	2.4 (2.0) [2.0]
2007	Q1	3.7 (4.1) [2.5]	3.8 (3.0) [3.0]	2.4 (2.0) [2.0]
	Q2	3.6 (3.8) [2.5]	3.9 (3.0) [3.0]	2.4 (2.1) [2.0]
	Q3	3.5 (3.7) [2.3]	3.8 (3.0) [3.0]	2.4 (2.1) [2.0]
	Q4	3.9 (4.6) [2.5]	3.8 (3.1) [3.0]	2.4 (2.1) [2.0]
2008	Q1	4.0 (4.8) [2.7]	3.8 (3.0) [3.0]	2.4 (2.1) [2.0]
	Q2	3.8 (4.1) [2.5]	3.9 (3.0) [3.0]	2.4 (2.1) [2.0]
	Q3	3.5 (3.5) [2.5]	3.7 (2.8) [3.0]	2.4 (2.0) [2.0]
	Q4	4.1 (5.0) [2.5]	3.7 (3.1) [3.0]	2.5 (2.2) [2.0]
2009	Q1	3.8 (4.7) [2.3]	3.8 (3.0) [3.0]	2.5 (2.2) [2.0]
	Q2	3.6 (4.1) [2.3]	3.9 (3.1) [3.0]	2.4 (2.2) [2.0]
	Q3	3.6 (4.0) [2.3]	3.9 (3.1) [3.0]	2.4 (2.2) [2.0]
	Q4	3.8 (4.7) [2.3]	3.8 (3.1) [3.0]	2.4 (2.2) [2.0]

### ***Patient Out-of-Pocket Payments***

The mean patient out-of-pocket payment per claim among the study quarters was \$2.22 for Medicaid patients, ranging from \$1.72 to \$3.02. (Table 14) The median result was \$0.00, as Texas Medicaid does not require a copayment for prescription medications covered on its preferred drug list. However, patients are required to make payments for non-preferred medications that do not receive prior approval.

The mean Medicare and other third party patient out-of-pocket payments per claim were \$10.19 and \$17.96, respectively, among the study quarters. Median out-of-pocket payments varied between \$2.15 and \$3.20 for Medicare claims, and remained constant at \$10.00 for other third party claims for each study quarter.

Table 15 presents the mean monthly out-of-pocket expenses per patient per quarter controlling for payer type. The mean patient payment per month was \$8.60, \$38.09, and \$45.06 for all study quarters for Medicaid, Medicare, and other third party patients, respectively. Using median results, there was no out-of-pocket payment per month for Medicaid patients (= \$0.00). The median monthly payments ranged from \$9.00 to \$15.00 for Medicare patients, and from \$23.95 to \$30.00 for other third party patients. Over the 16 quarters, the average monthly out-of-pocket expenses decreased from \$51.81 to \$44.22 for patients in other third party payers, but out-of-pocket expenses increased for Medicare and Medicaid patients over the study time frame.



Table 14. Patient Out-of-Pocket Payments per Claim by Payer and Quarter, 2006 – 2009

Year	Quarter	Mean Patient OOP/claim (SD) [Median]		
		Medicaid	Medicare	Other Third Party
2006	Q1	\$1.72 (8.95) [0.00]	\$10.89 (25.17) [3.00]	\$19.39 (32.52) [10.00]
	Q2	\$2.24 (10.74) [0.00]	\$9.90 (24.04) [3.00]	\$18.02 (29.67) [10.00]
	Q3	\$2.44 (11.76) [0.00]	\$10.52 (26.74) [3.00]	\$17.49 (31.64) [10.00]
	Q4	\$2.05 (10.38) [0.00]	\$10.46 (25.94) [2.60]	\$17.83 (24.93) [10.00]
2007	Q1	\$1.90 (9.23) [0.00]	\$9.07 (18.96) [3.10]	\$18.86 (25.50) [10.00]
	Q2	\$2.09 (11.57) [0.00]	\$9.87 (26.12) [3.10]	\$18.17 (25.89) [10.00]
	Q3	\$2.22 (12.76) [0.00]	\$10.93 (29.06) [3.10]	\$18.33 (27.06) [10.00]
	Q4	\$1.74 (10.12) [0.00]	\$9.62 (24.88) [2.15]	\$17.13 (23.59) [10.00]
2008	Q1	\$1.80 (10.08) [0.00]	\$9.29 (21.44) [3.10]	\$18.17 (26.93) [10.00]
	Q2	\$2.08 (12.69) [0.00]	\$10.03 (28.70) [3.10]	\$17.61 (28.32) [10.00]
	Q3	\$2.26 (14.23) [0.00]	\$11.18 (32.25) [2.97]	\$17.85 (29.68) [10.00]
	Q4	\$2.04 (12.91) [0.00]	\$11.21 (31.90) [2.25]	\$17.44 (29.39) [10.00]
2009	Q1	\$3.02 (14.33) [0.00]	\$10.06 (23.17) [3.20]	\$18.37 (30.30) [10.00]
	Q2	\$2.61 (14.69) [0.00]	\$9.69 (26.73) [3.20]	\$17.58 (29.69) [10.00]
	Q3	\$2.76 (16.27) [0.00]	\$9.91 (29.46) [2.40]	\$17.73 (31.06) [10.00]
	Q4	\$2.61 (14.91) [0.00]	\$10.34 (30.50) [2.40]	\$17.41 (30.53) [10.00]

OOP = out of pocket

Table 15. Patient Out-of-Pocket Payments per Month by Payer and Quarter, 2006 – 2009

Year	Quarter	Mean Patient OOP/Month (SD) [Median]		
		Medicaid	Medicare	Other Third Party
2006	Q1	\$6.01 (25.94) [0.00]	\$34.33 (57.52) [11.00]	\$51.81 (78.86) [30.00]
	Q2	\$6.78 (30.00) [0.00]	\$30.63 (57.72) [10.00]	\$47.66 (73.40) [30.00]
	Q3	\$6.78 (30.60) [0.00]	\$30.71 (63.53) [9.00]	\$46.34 (74.54) [28.42]
	Q4	\$6.95 (29.90) [0.00]	\$40.13 (79.27) [10.50]	\$42.83 (59.64) [25.68]
2007	Q1	\$7.26 (26.98) [0.00]	\$36.28 (55.99) [14.27]	\$45.87 (62.20) [29.00]
	Q2	\$7.43 (34.22) [0.00]	\$39.20 (85.37) [13.30]	\$44.24 (65.61) [25.51]
	Q3	\$7.73 (36.51) [0.00]	\$42.28 (91.19) [11.67]	\$44.70 (68.83) [25.11]
	Q4	\$6.94 (29.80) [0.00]	\$36.89 (71.27) [10.00]	\$41.97 (59.12) [25.00]
2008	Q1	\$7.70 (29.99) [0.00]	\$37.24 (63.70) [14.50]	\$45.21 (64.49) [27.00]
	Q2	\$8.17 (37.83) [0.00]	\$39.65 (90.43) [13.11]	\$43.53 (69.93) [25.00]
	Q3	\$8.29 (37.96) [0.00]	\$41.27 (91.94) [11.25]	\$43.42 (69.55) [24.30]
	Q4	\$8.71 (37.83) [0.00]	\$42.39 (90.54) [10.03]	\$43.78 (72.23) [23.95]
2009	Q1	\$15.26 (48.50) [0.00]	\$40.06 (67.99) [15.00]	\$46.26 (73.05) [25.00]
	Q2	\$10.69 (44.20) [0.00]	\$39.14 (81.99) [14.00]	\$44.24 (73.14) [24.22]
	Q3	\$11.35 (48.53) [0.00]	\$39.37 (86.76) [12.07]	\$44.88 (75.48) [24.39]
	Q4	\$11.52 (44.60) [0.00]	\$39.87 (85.44) [11.60]	\$44.22 (74.82) [24.04]

OOP = out of pocket

### Claims Financial Analysis

#### Overall Results

Table 16 presents a quarterly analysis of ingredient costs, pharmacy revenue (patient payment + third party payment), GM, and %GM by payer group.

Table 16. Ingredient Cost, Patient Out-of-Pocket Payment, Third Party Payment, Gross Margin (GM), and GM Percent Controlling for Payer Group and Quarter, 2006 – 2009

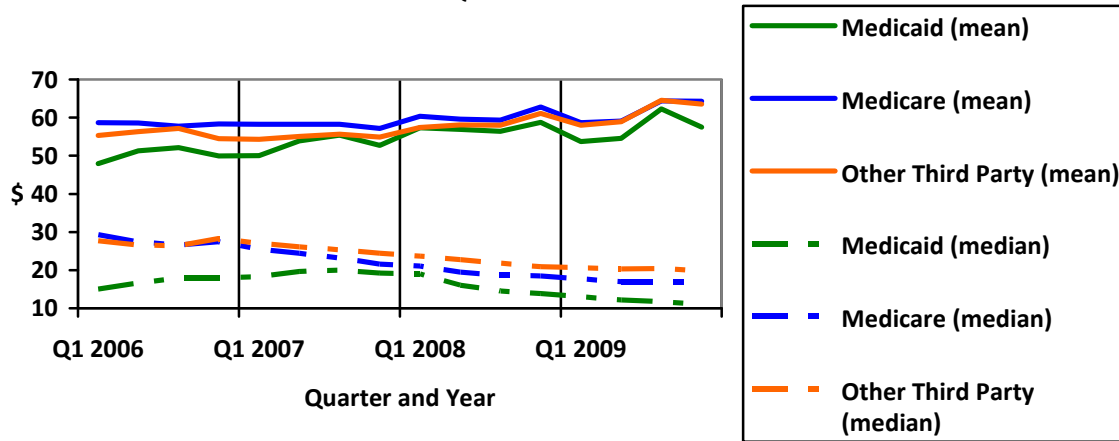
Quarter/ Year	Payer Group	\$ Mean (SD) [Median]			Mean Gross Margin (% Margin)
		Ingredient Cost	Pharmacy Revenue		
			Patient Payment	Third Party Payment	
Q1 2006	Medicaid	\$47.93 (84.16) [15.02]	\$1.73 (8.95) [0.00]	\$49.86 (84.21) [17.78]	\$3.66 (7.1%)
	Medicare	\$58.64 (82.31) [29.30]	\$10.89 (25.17) [3.00]	\$50.03 (78.75) [19.92]	\$2.28 (3.7%)
	Other Third Party	\$55.29 (149.12) [27.67]	\$19.39 (32.52) [10.00]	\$37.73 (139.33) [8.75]	\$1.83 (3.2%)
Q2 2006	Medicaid	\$51.25 (89.23) [16.64]	\$2.24 (10.74) [0.00]	\$53.55 (89.64) [19.08]	\$4.54 (8.1%)
	Medicare	\$58.56 (83.26) [27.40]	\$9.90 (24.04) [3.00]	\$51.00 (79.89) [20.71]	\$2.34 (3.8%)
	Other Third Party	\$56.28 (125.95) [26.60]	\$18.02 (29.67) [10.00]	\$40.10 (120.11) [10.55]	\$1.84 (3.2%)
Q3 2006	Medicaid	\$52.13 (88.73) [18.00]	\$2.44 (11.76) [0.00]	\$54.07 (88.99) [19.83]	\$4.38 (7.8%)
	Medicare	\$57.74 (82.61) [26.62]	\$10.52 (26.74) [3.00]	\$49.52 (79.46) [19.04]	\$2.30 (3.8%)
	Other Third Party	\$57.17 (152.90) [26.35]	\$17.49 (31.64) [10.00]	\$41.47 (147.19) [11.33]	\$1.79 (3.0%)
Q4 2006	Medicaid	\$49.97 (84.45 ) [18.00]	\$2.03 (10.06) [0.00]	\$53.22 (85.57) [20.97]	\$5.28 (9.6%)
	Medicare	\$58.35 (82.31) [27.47]	\$10.33 (25.33) [2.47]	\$50.93 (80.63) [20.00]	\$2.91 (4.8%)
	Other Third Party	\$54.44 (73.70) [28.29]	\$17.65 (24.22) [10.00]	\$38.61 (67.68) [12.66]	\$1.82 (3.2%)
Q1 2007	Medicaid	\$50.03 (84.43) [18.33]	\$1.90 (9.23) [0.00]	\$53.47 (85.50) [21.36]	\$5.34 (9.6%)
	Medicare	\$58.21 (84.25) [25.55]	\$9.07 (18.96) [3.10]	\$51.93 (81.46) [20.96]	\$2.79 (4.6%)
	Other Third Party	\$54.32 (74.52) [27.00]	\$18.86 (25.50) [10.00]	\$37.24 (67.47) [10.99]	\$1.78 (3.2%)
Q2 2007	Medicaid	\$53.92 (90.43) [19.66]	\$2.09 (11.57) [0.00]	\$57.15 (91.50) [22.24]	\$5.32 (9.0%)
	Medicare	\$58.26 (85.91) [24.40]	\$9.87 (26.12) [3.10]	\$51.17 (82.30) [19.70]	\$2.78 (4.6%)
	Other Third Party	\$55.09 (77.02) [26.15]	\$18.17 (25.89) [10.00]	\$38.72 (69.73) [11.63]	\$1.80 (3.2%)
Q3 2007	Medicaid	\$55.39 (92.98) [20.00]	\$2.22 (12.76) [0.00]	\$59.08 (94.31) [23.11]	\$5.91 (9.6%)
	Medicare	\$58.21 (87.12) [23.18]	\$10.93 (29.06) [3.10]	\$50.08 (84.07) [17.50]	\$2.80 (4.6%)
	Other Third Party	\$55.67 (79.12) [25.39]	\$18.33 (27.06) [10.00]	\$39.14 (71.85) [11.14]	\$1.80 (3.1%)
Q4 2007	Medicaid	\$52.70 (88.55) [19.23]	\$1.74 (10.12) [0.00]	\$57.92 (90.37) [23.47]	\$6.96 (11.7%)
	Medicare	\$57.14 (87.66) [21.54]	\$9.62 (24.88) [2.15]	\$50.41 (85.93) [16.97]	\$2.89 (4.8%)
	Other Third Party	\$54.86 (78.65) [24.46]	\$17.13 (23.59) [10.00]	\$39.52 (72.30) [11.53]	\$1.79 (3.2%)

Table 16. Ingredient Cost, Patient Out-of-Pocket Payment, Third Party Payment, Gross Margin (GM), and GM Percent Controlling for Payer Group and Quarter, 2006 – 2009 (cont.)

Quarter/ Year	Payer Group	\$ Mean (SD) [Median]			Mean Gross Margin (% Margin)
		Ingredient Cost	Pharmacy Revenue		
			Patient Payment	Third Party Payment	
Q1 2008	Medicaid	\$57.30 (127.75) [18.99]	\$1.80 (10.08) [0.00]	\$62.65 (129.83) [23.64]	\$7.15 (11.1%)
	Medicare	\$60.35 (109.42) [21.10]	\$9.29 (21.44) [3.10]	\$53.90 (105.73) [18.45]	\$2.84 (4.5%)
	Other Third Party	\$57.44 (107.65) [23.70]	\$18.17 (26.93) [10.00]	\$41.00 (101.38) [10.30]	\$1.73 (2.9%)
Q2 2008	Medicaid	\$56.91 (108.62) [16.01]	\$2.08 (12.69) [0.00]	\$61.94 (110.11) [20.90]	\$7.11 (11.1%)
	Medicare	\$59.57 (100.21) [19.50]	\$10.03 (28.70) [3.10]	\$52.36 (95.69) [16.90]	\$2.82 (4.5%)
	Other Third Party	\$58.09 (95.79) [22.77]	\$17.61 (28.32) [10.00]	\$42.18 (88.47) [10.51]	\$1.70 (2.8%)
Q3 2008	Medicaid	\$56.39 (99.65) [14.52]	\$2.24 (13.92) [0.00]	\$61.41 (101.17) [19.73]	\$7.26 (11.4%)
	Medicare	\$59.36 (94.87) [18.68]	\$11.08 (31.71) [2.87]	\$51.05 (90.73) [15.41]	\$2.77 (4.5%)
	Other Third Party	\$58.00 (87.50) [21.84]	\$17.71 (28.98) [10.00]	\$41.92 (79.51) [9.75]	\$1.63 (2.7%)
Q4 2008	Medicaid	\$58.78 (147.25) [13.88]	\$2.03 (12.86) [0.00]	\$64.28 (149.66) [19.28]	\$7.53 (11.4%)
	Medicare	\$62.76 (129.32) [18.44]	\$11.14 (31.66) [2.25]	\$54.45 (126.33) [14.76]	\$2.83 (4.3%)
	Other Third Party	\$61.07 (129.70) [20.90]	\$17.41 (29.25) [10.00]	\$45.24 (123.69) [9.34]	\$1.58 (2.5%)
Q1 2009	Medicaid	\$53.74 (96.65) [12.99]	\$3.02 (14.33) [0.00]	\$58.20 (97.65) [18.28]	\$7.48 (12.2%)
	Medicare	\$58.63 (95.54) [17.68]	\$10.06 (23.17) [3.20]	\$50.81 (90.71) [14.44]	\$2.24 (3.7%)
	Other Third Party	\$58.02 (89.39) [20.63]	\$18.37 (30.30) [10.00]	\$41.34 (81.12) [8.42]	\$1.69 (2.8%)
Q2 2009	Medicaid	\$54.56 (99.70) [12.15]	\$2.61 (14.69) [0.00]	\$59.48 (100.76) [17.58]	\$7.53 (12.1%)
	Medicare	\$59.10 (96.81) [16.99]	\$9.69 (26.73) [3.20]	\$51.58 (91.80) [14.65]	\$2.17 (3.5%)
	Other Third Party	\$58.96 (91.68) [20.34]	\$17.58 (29.69) [10.00]	\$42.94 (83.63) [8.85]	\$1.56 (2.6%)
Q3 2009	Medicaid	\$62.26 (169.96) [11.73]	\$2.76 (16.27) [0.00]	\$67.11 (172.37) [17.10]	\$7.61 (10.9%)
	Medicare	\$64.40 (140.01) [16.96]	\$9.91 (29.46) [2.40]	\$56.69 (135.95) [14.47]	\$2.20 (3.3%)
	Other Third Party	\$64.57 (145.06) [20.37]	\$17.73 (31.06) [10.00]	\$48.39 (138.81) [8.92]	\$1.55 (2.3%)
Q4 2009	Medicaid	\$57.48 (161.32) [10.95]	\$2.61 (14.91) [0.00]	\$62.20 (163.14) [16.93]	\$7.33 (11.3%)
	Medicare	\$64.30 (144.63) [16.79]	\$10.34 (30.50) [2.40]	\$56.17 (140.97) [13.81]	\$2.21 (3.3%)
	Other Third Party	\$63.56 (146.98) [19.90]	\$17.41 (30.53) [10.00]	\$47.76 (141.17) [8.92]	\$1.61 (2.5%)

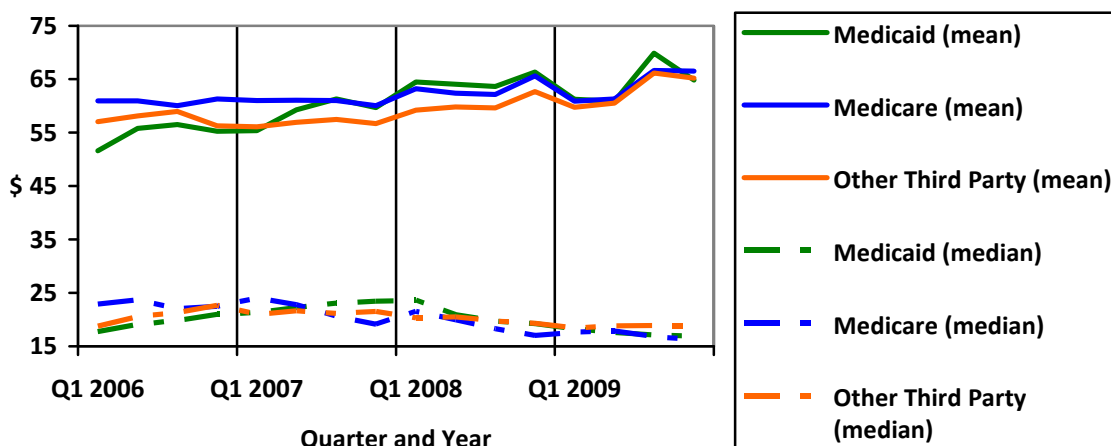
As seen in Figure 10, mean ingredient costs increased for all three payer groups over the course of the study. Between Q1 2006 and Q4 2009, the percentage increases in ingredient costs were 19.9%, 9.7%, and 15.0% for Medicaid, Medicare, and other third party claims, respectively. Median ingredient costs, however, decreased over time for the three payer groups, indicating some claims had very high ingredient costs which skewed data to the right.

**Figure 10. Mean and Median Ingredient Costs per Claim by Payer and Quarter**



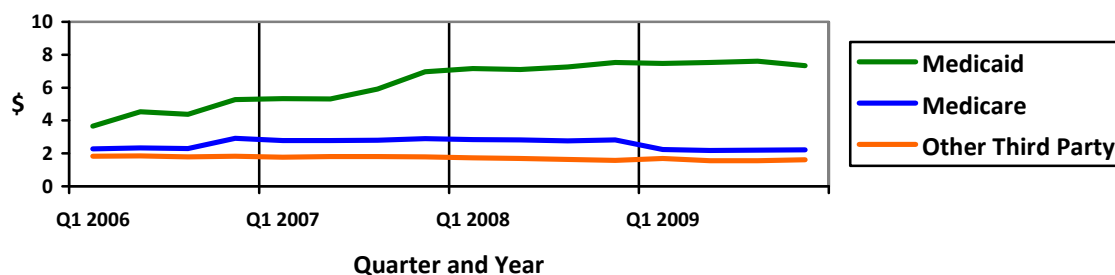
Mean revenue increased by 25.6%, 9.2%, and 14.1% for Medicaid, Medicare, and other third party claims, respectively, between Q1 2006 and Q4 2009. (Figure 11) As with ingredient costs, the median revenue per claim decreased over time for Medicaid and Medicare claims. It increased slightly, however, for other third party claims.

**Figure 11. Mean and Median Revenue per Claim by Payer and Quarter**

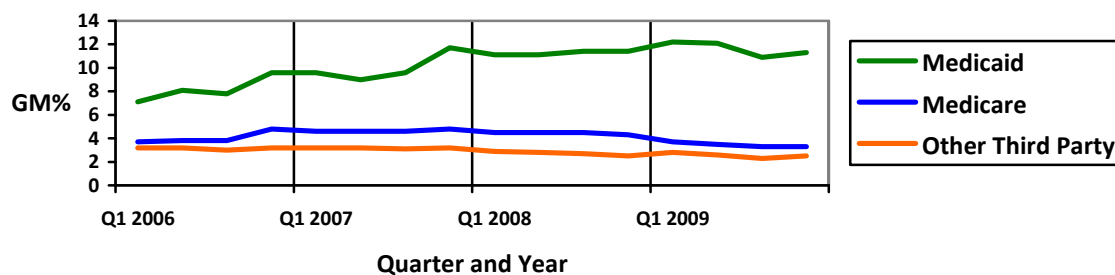


GM and GM% increased during the study period for Medicaid claims. (Figures 12 and 13) GM increased by 100.3% between Q1 2006 and Q4 2009, while GM% increased from 7.1% to 11.3%. The primary reason for this increase was due to an increase in dispensing fee from \$5.14 to \$7.50 in September of 2007. GM for Medicare claims increased between 2006 and 2007, but fell below 2006 results by 2009. GM% was approximately 4.0% in 2006, 4.7% in 2007, 4.5% in 2008, and 3.5% in 2009. GM gradually decreased throughout the study period for other third party claims, while GM% held at ~3.2% for 2006 and 2007, and then fell to ~2.7% and ~2.5% in 2008 and 2009, respectively.

**Figure 12. Gross Margin per Claim by Payer and Quarter**



**Figure 13. Gross Margin Percent per Claim by Payer and Quarter**



### *Brand Financials*

Table 17 presents a quarterly analysis of ingredient costs, pharmacy revenue (patient payment + third party payment), GM, and %GM by payer group for brand drug claims. Mean dollar gross margins as well as percent gross margins were higher for Medicaid compared to Medicare and other third party brand claims for every quarter of each year. Gross margin percentages for Medicare and other third party claims averaged 1.7% and 1.3% across study quarters. For Medicaid brand drug claims, gross margin percentages averaged 5.6% across the study period.

Table 17. Ingredient Cost, Patient Out-of-Pocket Payment, Third Party Payment, Gross Margin (GM), and GM Percent for BRAND Drug Claims Controlling for Payer Group and Quarter, 2006 – 2009

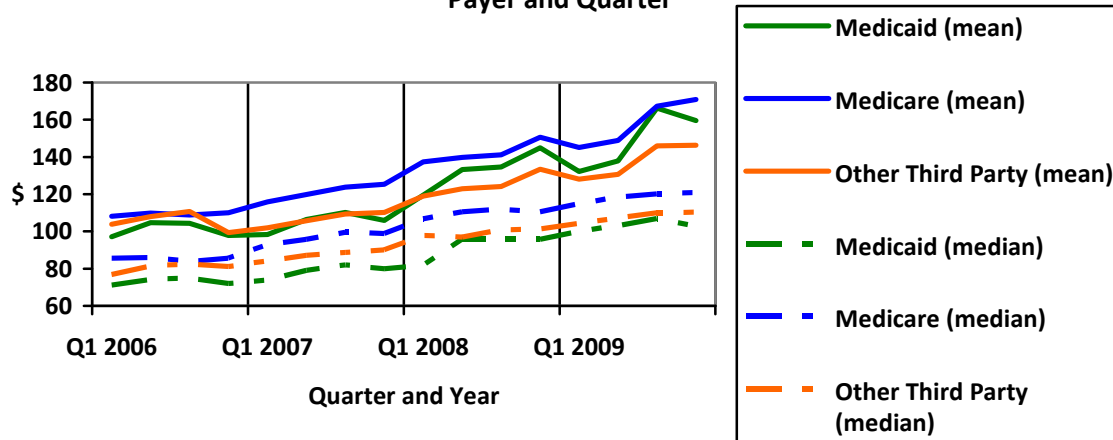
Quarter/ Year	Payer Group	\$ Mean (SD) [Median]			Mean Gross Margin (% Margin)
		Ingredient Cost	Pharmacy Revenue		
			Patient Payment	Third Party Payment	
Q1 2006	Medicaid	\$97.15 (113.26) [71.09]	\$3.34 (13.26) [0.00]	\$96.08 (115.38) [70.64]	\$2.27 (2.3%)
	Medicare	\$108.06 (96.95) [85.62]	\$18.82 (33.83) [5.00]	\$90.63 (98.23) [70.30]	\$1.39 (1.3%)
	Other Third Party	\$103.92 (176.45) [76.93]	\$32.68 (43.92) [25.00]	\$72.71 (162.69) [48.25]	\$1.47 (1.4%)
Q2 2006	Medicaid	\$104.62 (120.06) [74.32]	\$4.48 (15.83) [0.00]	\$104.50 (122.40) [76.53]	\$4.36 (4.0%)
	Medicare	\$109.86 (98.83) [85.91]	\$17.55 (32.43) [5.00]	\$93.71 (100.33) [72.26]	\$1.40 (1.3%)
	Other Third Party	\$108.02 (174.43) [81.46]	\$30.62 (40.94) [25.00]	\$78.85 (170.54) [53.11]	\$1.45 (1.3%)
Q3 2006	Medicaid	\$104.40 (117.59) [74.95]	\$4.63 (17.26) [0.00]	\$103.93 (119.70) [78.24]	\$4.16 (3.8%)
	Medicare	\$108.91 (100.09) [83.88]	\$19.02 (36.88) [5.00]	\$91.29 (102.03) [70.30]	\$1.40 (1.3%)
	Other Third Party	\$110.80 (205.87) [82.48]	\$30.29 (45.41) [25.00]	\$81.90 (200.61) [53.93]	\$1.39 (1.2%)
Q4 2006	Medicaid	\$97.81 (110.05) [72.06]	\$3.79 (14.66) [0.00]	\$100.19 (112.59) [75.90]	\$6.17 (5.9%)
	Medicare	\$110.00 (99.39) [85.68]	\$18.44 (34.85) [5.00]	\$94.33 (103.19) [71.88]	\$2.77 (2.5%)
	Other Third Party	\$99.41 (87.13) [81.12]	\$29.60 (30.82) [25.00]	\$71.35 (85.83) [53.11]	\$1.54 (1.5%)
Q1 2007	Medicaid	\$98.38 (109.61) [73.94]	\$3.59 (13.64) [0.00]	\$101.02 (111.96) [78.21]	\$6.23 (6.0%)
	Medicare	\$115.79 (101.13) [92.84]	\$17.52 (26.25) [5.35]	\$100.81 (103.42) [77.72]	\$2.54 (2.1%)
	Other Third Party	\$101.93 (87.27) [84.18]	\$32.25 (32.35) [25.00]	\$71.14 (85.48) [53.62]	\$1.46 (1.4%)
Q2 2007	Medicaid	\$106.49 (116.57) [79.05]	\$3.98 (17.36) [0.00]	\$108.79 (119.05) [82.75]	\$6.28 (5.6%)
	Medicare	\$119.82 (104.42) [95.70]	\$19.80 (38.01) [5.35]	\$102.57 (106.46) [79.37]	\$2.55 (2.1%)
	Other Third Party	\$105.72 (90.68) [87.08]	\$31.70 (33.61) [25.00]	\$75.51 (88.38) [57.24]	\$1.49 (1.4%)
Q3 2007	Medicaid	\$110.15 (120.43) [81.93]	\$4.20 (19.11) [0.00]	\$113.01 (123.34) [85.16]	\$7.06 (6.0%)
	Medicare	\$123.70 (107.44) [99.54]	\$22.56 (43.20) [5.35]	\$103.72 (111.79) [79.72]	\$2.58 (2.0%)
	Other Third Party	\$109.36 (94.67) [88.73]	\$32.62 (35.84) [25.00]	\$78.23 (92.63) [58.59]	\$1.49 (1.3%)
Q4 2007	Medicaid	\$105.82 (116.26) [79.88]	\$3.24 (15.17) [0.00]	\$110.92 (119.48) [85.20]	\$8.34 (7.3%)
	Medicare	\$125.32 (110.51) [98.78]	\$19.22 (37.49) [5.35]	\$108.81 (115.66) [83.71]	\$2.71 (2.1%)
	Other Third Party	\$110.15 (95.23) [90.05]	\$30.49 (31.14) [25.00]	\$81.16 (94.14) [61.02]	\$1.50 (1.3%)

Table 17. Ingredient Cost, Patient Out-of-Pocket Payment, Third Party Payment, Gross Margin (GM), and GM Percent for BRAND Drug Claims Controlling for Payer Group and Quarter, 2006 – 2009 (cont.)

Quarter/ Year	Payer Group	\$ Mean (SD) [Median]			Mean Gross Margin (% Margin)
		Ingredient Cost	Pharmacy Revenue		
			Patient Payment	Third Party Payment	
Q1 2008	Medicaid	\$119.55 (183.21) [81.65]	\$3.51 (15.39) [0.00]	\$124.62 (186.88) [88.19]	\$8.58 (6.7%)
	Medicare	\$137.39 (150.73) [106.75]	\$19.45 (32.19) [5.60]	\$120.45 (151.05) [89.04]	\$2.51 (1.8%)
	Other Third Party	\$118.92 (143.64) [91.88]	\$33.53 (36.41) [25.74]	\$86.81 (141.64) [61.61]	\$1.42 (1.2%)
Q2 2008	Medicaid	\$133.19 (152.00) [95.73]	\$4.68 (20.90) [0.00]	\$137.56 (155.19) [100.48]	\$9.05 (6.4%)
	Medicare	\$139.75 (133.89) [110.53]	\$22.51 (45.23) [5.60]	\$119.74 (135.14) [89.90]	\$2.50 (1.8%)
	Other Third Party	\$122.89 (123.72) [96.93]	\$32.93 (39.69) [25.00]	\$91.41 (121.17) [66.98]	\$1.45 (1.2%)
Q3 2008	Medicaid	\$134.53 (134.42) [95.73]	\$5.14 (23.11) [0.00]	\$138.58 (138.06) [105.17]	\$9.19 (6.4%)
	Medicare	\$141.13 (122.19) [111.89]	\$25.43 (50.29) [5.60]	\$118.19 (126.35) [89.65]	\$2.49 (1.7%)
	Other Third Party	\$124.06 (109.12) [100.94]	\$33.57 (40.84) [25.00]	\$92.03 (107.18) [68.30]	\$1.54 (1.2%)
Q4 2008	Medicaid	\$144.89 (225.76) [95.73]	\$4.64 (21.26) [0.00]	\$149.80 (230.48) [98.95]	\$9.55 (6.2%)
	Medicare	\$150.58 (188.27) [110.59]	\$25.06 (50.17) [5.60]	\$128.21 (191.43) [91.21]	\$2.69 (1.8%)
	Other Third Party	\$133.36 (182.89) [101.27]	\$33.30 (41.86) [25.00]	\$101.56 (180.90) [69.54]	\$1.50 (1.1%)
Q1 2009	Medicaid	\$132.25 (132.43) [100.12]	\$6.43 (22.79) [0.00]	\$134.99 (135.65) [98.95]	\$9.17 (6.5%)
	Medicare	\$145.03 (125.23) [115.05]	\$22.92 (36.30) [6.00]	\$124.14 (126.30) [95.26]	\$2.03 (1.4%)
	Other Third Party	\$128.04 (112.96) [104.38]	\$36.06 (43.11) [28.70]	\$93.70 (111.02) [69.68]	\$1.72 (1.3%)
Q2 2009	Medicaid	\$137.91 (137.86) [103.20]	\$5.74 (23.88) [0.00]	\$141.37 (141.02) [105.02]	\$9.20 (6.3%)
	Medicare	\$148.95 (127.21) [118.45]	\$23.14 (43.62) [6.00]	\$127.79 (128.46) [99.03]	\$1.98 (1.3%)
	Other Third Party	\$130.69 (115.86) [107.25]	\$34.40 (42.60) [25.00]	\$97.83 (113.56) [73.19]	\$1.54 (1.2%)
Q3 2009	Medicaid	\$166.22 (271.51) [106.85]	\$6.30 (27.01) [0.00]	\$169.45 (276.96) [112.50]	\$9.53 (5.4%)
	Medicare	\$167.24 (213.23) [120.24]	\$24.05 (48.71) [6.00]	\$145.15 (214.45) [103.48]	\$1.96 (1.2%)
	Other Third Party	\$145.97 (206.48) [110.10]	\$34.94 (44.95) [25.00]	\$112.59 (204.22) [75.92]	\$1.56 (1.1%)
Q4 2009	Medicaid	\$159.61 (266.23) [102.75]	\$6.13 (25.29) [0.00]	\$162.28 (270.87) [100.24]	\$8.80 (5.2%)
	Medicare	\$170.90 (224.93) [120.80]	\$25.21 (51.14) [6.00]	\$147.63 (227.05) [104.60]	\$1.94 (1.1%)
	Other Third Party	\$146.37 (214.88) [110.34]	\$34.61 (44.34) [25.48]	\$113.51 (213.11) [75.97]	\$1.75 (1.2%)

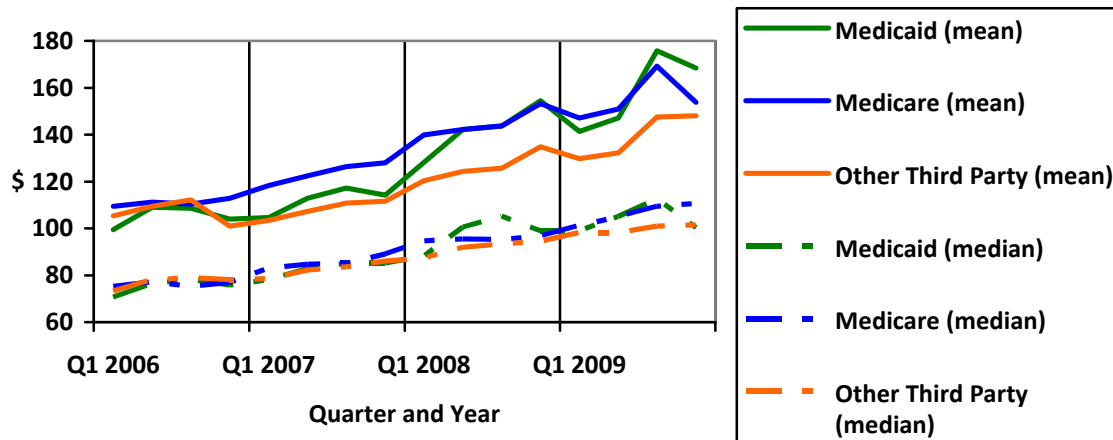
Mean ingredient costs for brand prescription claims increased for all three payer groups over the course of the study. (Figure 14) Between Q1 2006 and Q4 2009, the percentage increase in ingredient costs was greatest for Medicaid (64.3%), followed by Medicare (58.2%), and other third party claims (40.8%). Median costs also increased over time for the three payer groups.

**Figure 14. Mean and Median Ingredient Costs per Brand Drug Claim by Payer and Quarter**



Mean revenue for Medicaid, Medicare, and other third party brand claims increased by 69.4%, 57.9%, and 40.5%, respectively, between Q1 2006 and Q4 2009. (Figure 15) As with ingredient costs, the median revenue per claim increased over time for all three payer groups.

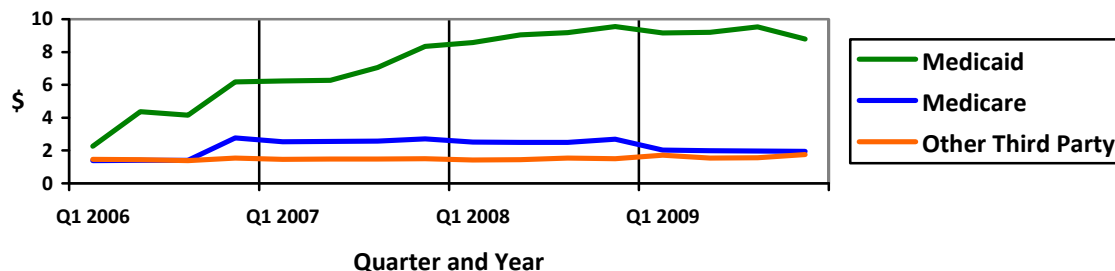
**Figure 15. Mean and Median Revenue per Brand Drug Claim by Payer and Quarter**



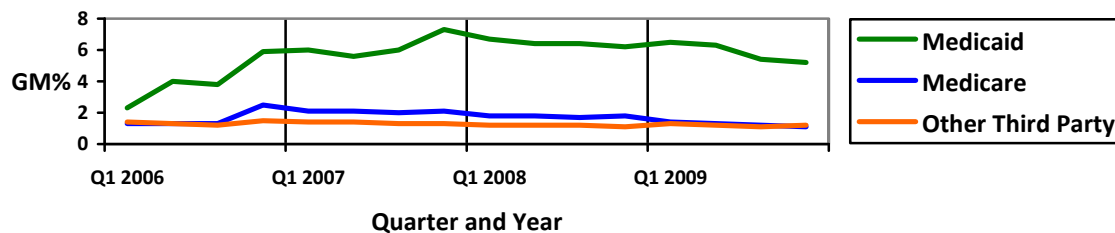


GM and GM% increased for Medicaid brand claims during 2006 and 2007, and then decreased throughout 2008 and 2009. (Figures 16 and 17) GM increased by 287.7% between Q1 2006 and Q4 2009, while GM% increased from 2.3% to 5.2%. GM% for Medicaid brand claims reached 7.3% during Q4 2007. GM for Medicare brand claims increased between 2006 and 2007, but slightly decreased throughout 2008 and 2009. GM% was approximately 1.3% in most of 2006, rising to ~2.0% in 2007, and then falling to ~1.8% in 2008 and ~1.3% in 2009. GM remained fairly constant for other third party brand claims, while GM% ranged from 1.2-1.5% in 2006 and 2007, and from 1.1-1.3% in 2008 and 2009.

**Figure 16. Gross Margin per BRAND Drug Claim by Payer and Quarter**



**Figure 17. Gross Margin Percent per BRAND Drug Claim by Payer and Quarter**



### Generic Financials

Table 18 presents a quarterly analysis of ingredient costs, pharmacy revenue (patient payment + third party payment), GM, and %GM by payer group for generic drug claims. As with brand drug claims, mean dollar GMs and %GMs were higher for Medicaid compared to Medicare and other third party generic claims for every quarter of each year. Gross margin percentages for Medicare and other third party claims averaged 12.2% and 7.4% across study quarters. For Medicaid generic drug claims, gross margin percentages averaged 23.7% across the study period.

Table 18. Ingredient Cost, Patient Out-of-Pocket Payment, Third Party Payment, Gross Margin (GM), and GM Percent for GENERIC Drug Claims Controlling for Payer Group and Quarter, 2006 – 2009

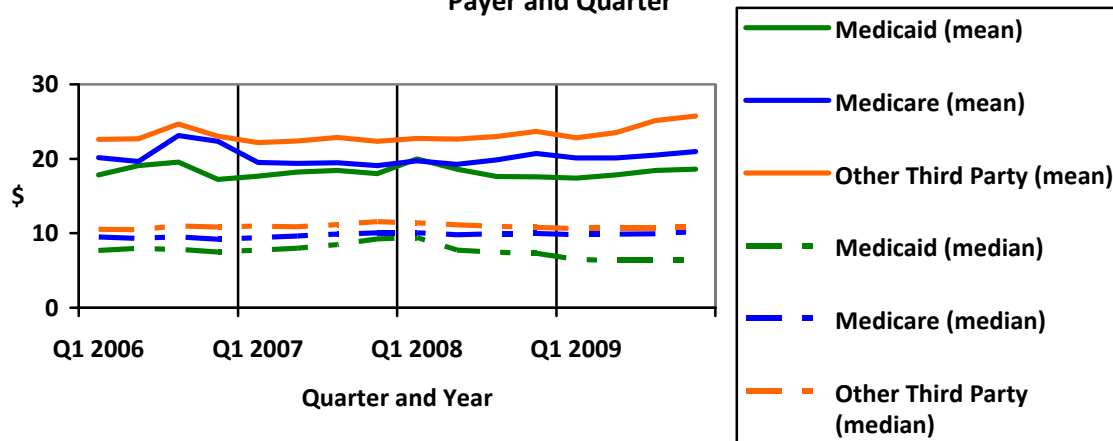
Quarter/ Year	Payer Group	\$ Mean (SD) [Median]			Mean Gross Margin (% Margin)
		Ingredient Cost	Pharmacy Revenue		
			Patient Payment	Third Party Payment	
Q1 2006	Medicaid	\$17.84 (33.89) [7.71]	\$0.75 (4.21) [0.00]	\$21.57 (33.90) [11.87]	\$4.48 (20.1%)
	Medicare	\$20.14 (36.79) [9.48]	\$4.69 (12.20) [1.00]	\$18.45 (35.21) [9.05]	\$3.00 (13.0%)
	Other Third Party	\$22.61 (117.29) [10.51]	\$10.55 (16.61) [9.35]	\$14.13 (115.92) [2.07]	\$2.07 (8.4%)
Q2 2006	Medicaid	\$19.10 (35.91) [8.01]	\$0.91 (5.47) [0.00]	\$22.79 (36.11) [12.10]	\$4.60 (19.4%)
	Medicare	\$19.64 (35.34) [9.34]	\$4.07 (11.81) [1.00]	\$18.61 (33.65) [9.65]	\$3.04 (13.4%)
	Other Third Party	\$22.68 (60.15) [10.50]	\$9.92 (14.02) [9.00]	\$14.82 (58.03) [3.00]	\$2.06 (8.3%)
Q3 2006	Medicaid	\$19.57 (36.66) [7.84]	\$1.09 (5.87) [0.00]	\$22.96 (36.78) [11.79]	\$4.48 (18.6%)
	Medicare	\$23.11 (40.77) [9.52]	\$4.75 (14.05) [1.00]	\$21.26 (39.12) [9.49]	\$2.90 (11.1%)
	Other Third Party	\$24.68 (94.70) [11.01]	\$9.83 (14.31) [8.75]	\$16.87 (93.28) [3.69]	\$2.02 (7.6%)
Q4 2006	Medicaid	\$17.23 (32.94 ) [7.50]	\$0.83 (4.43) [0.00]	\$21.08 (33.38) [11.56]	\$4.68 (21.4%)
	Medicare	\$22.34 (38.15) [9.18]	\$4.68 (12.83) [1.00]	\$20.68 (37.16) [9.18]	\$3.02 (12.2%)
	Other Third Party	\$23.03 (39.06) [10.82]	\$9.30 (12.79) [8.49]	\$15.75 (36.91) [3.87]	\$2.02 (8.1%)
Q1 2007	Medicaid	\$17.67 (35.32) [7.72]	\$0.77 (3.79) [0.00]	\$21.65 (35.92) [12.00]	\$4.75 (21.2%)
	Medicare	\$19.53 (35.65) [9.43]	\$3.39 (7.61) [1.00]	\$19.10 (34.98) [10.10]	\$2.96 (13.2%)
	Other Third Party	\$22.18 (39.99) [10.98]	\$9.81 (13.39) [9.02]	\$14.35 (37.33) [3.33]	\$1.98 (8.2%)
Q2 2007	Medicaid	\$18.24 (36.88) [7.98]	\$0.80 (4.04) [0.00]	\$22.12 (37.41) [12.19]	\$4.68 (20.4%)
	Medicare	\$19.39 (35.38) [9.63]	\$3.61 (9.99) [1.00]	\$18.73 (34.25) [10.13]	\$2.95 (13.2%)
	Other Third Party	\$22.41 (41.63) [10.86]	\$9.43 (13.39) [8.60]	\$14.97 (39.01) [3.79]	\$1.99 (8.2%)
Q3 2007	Medicaid	\$18.43 (36.09) [8.47]	\$0.88 (4.69) [0.00]	\$22.69 (36.65) [12.89]	\$5.14 (21.8%)
	Medicare	\$19.49 (34.88) [9.88]	\$4.05 (10.64) [1.00]	\$18.37 (33.92) [9.97]	\$2.93 (13.1%)
	Other Third Party	\$22.85 (42.07) [11.17]	\$9.59 (13.90) [8.67]	\$15.25 (39.62) [3.88]	\$1.99 (8.0%)
Q4 2007	Medicaid	\$18.03 (33.06) [9.23]	\$0.76 (4.09) [0.00]	\$23.33 (33.91) [14.66]	\$6.06 (25.2%)
	Medicare	\$19.09 (33.37) [10.06]	\$4.26 (9.98) [1.00]	\$17.82 (32.77) [9.88]	\$2.99 (13.5%)
	Other Third Party	\$22.33 (40.42) [11.57]	\$9.28 (12.12) [8.76]	\$15.02 (38.33) [4.20]	\$1.97 (8.1%)

Table 18. Ingredient Cost, Patient Out-of-Pocket Payment, Third Party Payment, Gross Margin (GM), and GM Percent for GENERIC Drug Claims Controlling for Payer Group and Quarter, 2006 – 2009 (cont.)

Quarter/ Year	Payer Group	\$ Mean (SD) [Median]			Mean Gross Margin (% Margin)
		Ingredient Cost	Pharmacy Revenue		
			Patient Payment	Third Party Payment	
Q1 2008	Medicaid	\$19.98 (47.58) [9.41]	\$0.77 (4.21) [0.00]	\$25.50 (48.39) [14.74]	\$6.29 (23.9%)
	Medicare	\$19.71 (38.99) [10.07]	\$3.93 (8.49) [2.25]	\$18.80 (38.35) [10.15]	\$3.02 (13.3%)
	Other Third Party	\$22.73 (56.07) [11.37]	\$9.50 (13.33) [8.14]	\$15.14 (53.87) [3.96]	\$1.91 (7.8%)
Q2 2008	Medicaid	\$18.62 (41.67) [7.75]	\$0.77 (4.18) [0.00]	\$23.99 (42.56) [13.73]	\$6.14 (24.8%)
	Medicare	\$19.24 (34.86) [9.79]	\$3.75 (9.52) [1.45]	\$18.46 (33.82) [10.16]	\$2.97 (13.4%)
	Other Third Party	\$22.64 (47.64) [11.12]	\$9.23 (13.44) [8.00]	\$15.26 (45.01) [4.09]	\$1.85 (7.6%)
Q3 2008	Medicaid	\$17.64 (36.97) [7.42]	\$0.81 (4.36) [0.00]	\$23.14 (37.99) [13.61]	\$6.31 (26.3%)
	Medicare	\$19.85 (36.67) [9.92]	\$4.15 (11.05) [1.74]	\$18.61 (35.57) [9.97]	\$2.91 (12.8%)
	Other Third Party	\$23.00 (43.19) [10.91]	\$9.30 (14.03) [8.00]	\$15.37 (39.34) [3.96]	\$1.67 (6.8%)
Q4 2008	Medicaid	\$17.60 (49.38) [7.32]	\$0.78 (4.85) [0.00]	\$23.39 (50.39) [13.72]	\$6.57 (27.2%)
	Medicare	\$20.72 (47.96) [9.99]	\$4.48 (11.83) [2.14]	\$19.14 (46.95) [9.65]	\$2.90 (12.3%)
	Other Third Party	\$23.67 (64.16) [10.78]	\$9.18 (13.90) [8.00]	\$16.10 (61.59) [3.75]	\$1.61 (6.4%)
Q1 2009	Medicaid	\$17.39 (37.03) [6.50]	\$1.44 (7.20) [0.00]	\$22.64 (37.90) [12.94]	\$6.69 (27.8%)
	Medicare	\$20.10 (37.29) [9.80]	\$4.33 (9.03) [2.40]	\$18.09 (36.24) [8.74]	\$2.32 (10.3%)
	Other Third Party	\$22.84 (43.50) [10.62]	\$9.49 (14.46) [8.00]	\$15.04 (40.33) [3.25]	\$1.69 (6.9%)
Q2 2009	Medicaid	\$17.83 (39.17) [6.34]	\$1.22 (7.31) [0.00]	\$23.39 (40.06) [13.31]	\$6.78 (27.5%)
	Medicare	\$20.11 (37.31) [9.90]	\$3.86 (9.28) [2.27]	\$18.50 (36.19) [9.10]	\$2.25 (10.1%)
	Other Third Party	\$23.51 (46.11) [10.71]	\$9.27 (14.54) [7.81]	\$15.82 (43.03) [3.47]	\$1.58 (6.3%)
Q3 2009	Medicaid	\$18.43 (59.25) [6.34]	\$1.27 (7.84) [0.00]	\$23.97 (60.19) [13.14]	\$6.81 (27.0%)
	Medicare	\$20.48 (45.92) [9.93]	\$3.88 (10.16) [1.50]	\$18.90 (44.29) [9.24]	\$2.30 (10.1%)
	Other Third Party	\$25.15 (76.31) [10.71]	\$9.39 (15.50) [7.34]	\$17.30 (73.77) [3.65]	\$1.54 (5.8%)
Q4 2009	Medicaid	\$18.59 (58.84) [6.34]	\$1.28 (7.55) [0.00]	\$24.10 (59.56) [13.37]	\$6.79 (26.8%)
	Medicare	\$20.97 (48.56) [10.25]	\$4.30 (10.89) [2.40]	\$18.99 (47.03) [9.18]	\$2.32 (10.0%)
	Other Third Party	\$25.73 (76.22) [10.82]	\$9.55 (16.21) [7.40]	\$17.72 (73.53) [3.84]	\$1.54 (5.6%)

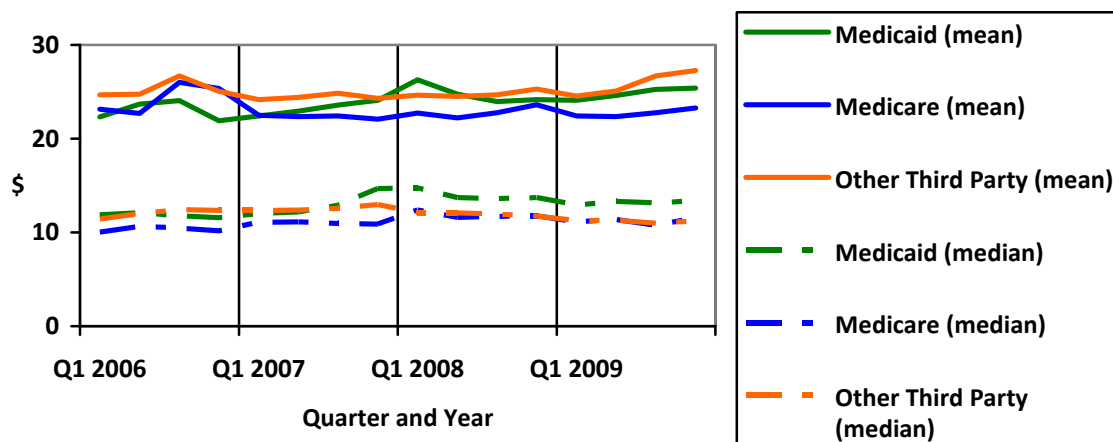
Mean ingredient costs for generic claims increased for all three payer groups over the course of the study. (Figure 18) Between Q1 2006 and Q4 2009, the percentage increase in ingredient costs was 4.2% and 4.1% for Medicaid and Medicare, respectively. The percentage increase for other third party generic claims was 13.8% over the study period. Median costs for generic claims increased slightly over time for Medicare and other third party plans, while those for Medicaid decreased.

**Figure 18. Mean and Median Ingredient Costs per GENERIC Drug Claim by Payer and Quarter**



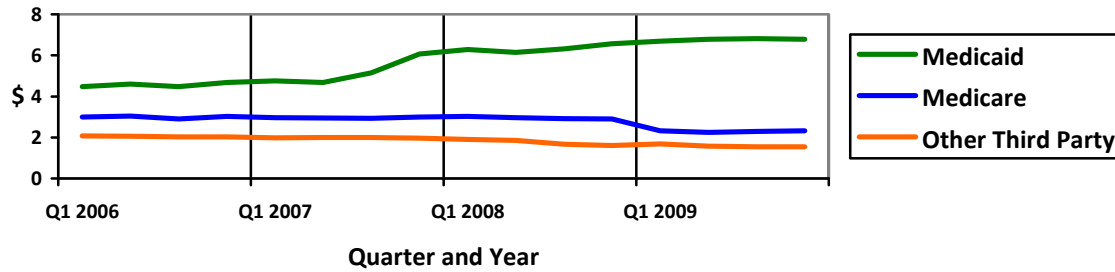
Mean revenue increased by 13.7% and 10.5% for Medicaid and other third party generic claims, respectively, between Q1 2006 and Q4 2009. (Figure 19) Mean revenue for generic Medicare claims only increased by 0.6% during the same time period, however. Median revenue amounts increased over time for generic Medicaid and Medicare claims, but slightly decreased for other third party claims.

**Figure 19. Mean and Median Revenue per GENERIC Drug Claim by Payer and Quarter**

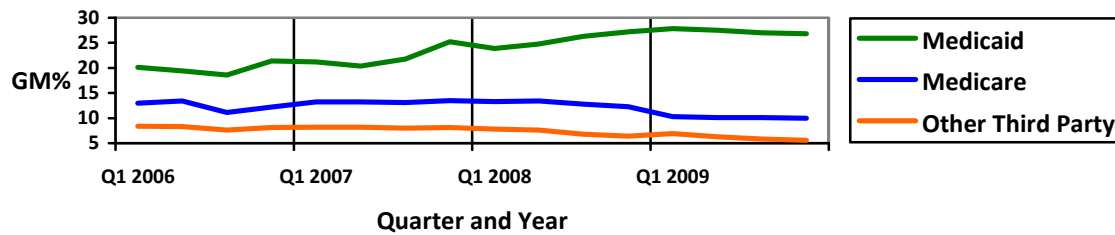


GM and GM% increased during the study period for Medicaid generic claims. (Figures 20 and 21) GM increased by 51.6% between Q1 2006 and Q4 2009, while GM% increased from 20.1% to 26.8%. GM for generic Medicare and other third party claims decreased by 22.7% and 25.6%, respectively. GM% decreased from 13.0% to 10.0% for Medicare generic claims during the study period, while other third party GM% decreased from 8.4% to 5.6%.

**Figure 20. Gross Margin per GENERIC Drug Claim by Payer and Quarter**



**Figure 21. Gross Margin Percent per GENERIC Drug Claim by Payer and Quarter**



## SUMMARY

This unique study of 52.7 million prescription drug claims from nearly 400 independent pharmacies in Texas provides a 4-year glimpse into the independent pharmacy business window since the implementation of Medicare Part D.

Overall, the pharmacies generated slightly more prescription claims (3.5%) in 2009 than in 2007. More pharmacies were added to the database in the fourth quarter of 2006, accounting for the 34% increase in the number of prescription claims between 2006 and 2007. Generic drug utilization steadily increased throughout the study period to just over 70%.

The gross margin results in this report are conservative, as pharmacies are usually able to purchase many drug products for less than the ingredient reimbursement provided by third parties. If actual acquisition costs were available and plugged into the gross margin calculations, the results would most likely reveal higher gross margins and gross margin percentages. However, actual acquisition costs are rarely available, and third party ingredient cost reimbursements serve as the closest proxy.

The overall gross margin percents increased from a low of 4.3% in 2006 to a high of 5.8% in 2007, but began to decline in 2008 and 2009. Similar trends were found for brand and generic prescription claims. The difference in the average gross margin percent between brand and generic drugs (2.4% and 12.5%, respectively) was pronounced, however.

Generic drug utilization rates were similar among Medicaid, Medicare, and other third party claims, and all increased throughout the study period. It is often expected for Medicaid to have lower generic use than other payers. However, in these pharmacies, Medicaid showed the highest generic utilization proportions for eight out of the 16 study quarters. Other third party payers had the highest generic utilization rate in only two of the 16 quarters.

Mean ingredient costs increased throughout the study period for Medicaid, Medicare, and other third party claims. Medicaid had the lowest ingredient costs of the three payers during each quarter of the study. Mean revenue also increased between 2006 and 2009 for each payer. Only Medicaid claims, however, were associated with an increasing gross margin percent throughout the study period. One factor accounting for this trend was the Texas Medicaid dispensing fee increase which occurred in September 2007 (\$5.14 to \$7.50). Gross margin percent for Medicaid generic claims steadily increased from 20% in 2006 to 27% in 2009.

After the implementation of Medicare Part D in January 2006, Texas independent pharmacies witnessed an increasing yield in margins from prescription drug sales through 2007. However, these yields began declining in 2008 and continued through 2009. Unlike their retail, grocery store, and mass merchant pharmacy counterparts, most independent pharmacies heavily rely on the GMs generated from prescription sales to stay in business. Medicaid claims provided the best gross margin percents throughout the study period. Unfortunately for these independent pharmacies, the proportion of Medicaid prescriptions out of all drug claims decreased between 2006 and 2009. It is expected that margins will continue to decline if Texas Medicaid abrogates its fee for service prescription program, moving all prescription services into managed care.