

CAUSE NO. \_\_\_\_\_

THE STATE OF TEXAS

*PLAINTIFF,*

V.

ELI LILLY AND COMPANY; NOVO  
NORDISK INC.; SANOFI-AVENTIS  
U.S. LLC; EVERNORTH HEALTH,  
INC. (FORMERLY EXPRESS SCRIPTS  
HOLDING COMPANY); EXPRESS  
SCRIPTS, INC.; EXPRESS SCRIPTS  
ADMINISTRATORS, LLC; ESI MAIL  
PHARMACY SERVICE, INC.;  
EXPRESS SCRIPTS PHARMACY, INC.;  
MEDCO HEALTH SOLUTIONS, INC.;  
CVS HEALTH CORPORATION; CVS  
PHARMACY, INC.; CAREMARK RX,  
LLC; CAREMARKPCS HEALTH, LLC;  
CAREMARK, LLC; UNITEDHEALTH  
GROUP, INC.; OPTUMRX, INC.; AND  
OPTUMINSIGHT, INC.

*DEFENDANTS.*

IN THE DISTRICT COURT OF

TRAVIS COUNTY, TEXAS

\_\_\_\_ JUDICIAL DISTRICT

JURY TRIAL DEMANDED

**PLAINTIFF'S ORIGINAL PETITION**

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The Honorable Ken Paxton, Attorney General, brings this action on behalf of the State of Texas (the “State” or “Plaintiff”), for violations of the Texas Deceptive Trades Practices-Consumer Protection Act, TEX. BUS. & COMM. CODE §§ 17.41 *et. seq.* (“DTPA”) and the Texas common law against the above-named Defendants and alleges upon personal knowledge as to the State and the State’s own acts, and upon information and belief as to all other matters as follows:

## I. INTRODUCTION

1. Diabetes is a serious public health concern in Texas as 11.5% of its population—approximately 3.4 million Texans—are living with diabetes. An additional 7.2 million Texas residents (or 34% of the population) have prediabetes, which is when a person’s blood sugar level is higher than it should be and signifies that the person is at greater risk for developing diabetes.

2. Diabetes is one of the leading causes of blindness, kidney failure, and lower limb amputations in Texas despite the availability of effective treatment.

3. The economic impact of diabetes is staggering. The total estimated cost of diagnosed diabetes in Texas is \$25 billion per year. One in four health care dollars is spent caring for people with diabetes.

4. Nearly all diabetics in Texas rely on daily insulin treatments to survive, Type 2 diabetic treatments such as glucagon-like peptide-1 (GLP-1) drugs, or use a combination of both to treat and control diabetes.

5. Defendants Eli Lilly, Novo Nordisk and Sanofi (collectively, “Manufacturer Defendants” or “Manufacturers”) manufacture the vast majority of insulins and other diabetic medications available in Texas.

6. Defendants CVS Caremark, Express Scripts, and OptumRx (“PBM Defendants” or “PBMs”) act as the gatekeepers to the pharmaceutical market, as these three corporate actors are at once: (1) the largest pharmacy benefit managers in the United States and in Texas (controlling approximately 80% of the PBM market); (2) the largest pharmacies in the United States and in Texas (making up 3 of the top 5 dispensing pharmacies in the U.S.); and (3) owned by three of the largest health insurers in the country (Express Scripts-Cigna, CVS Caremark-Aetna, and OptumRx-UnitedHealth Group). These PBM conglomerates sit at 4th (UHG/Optum), 6th (CVS Health/Aetna), and 16th (Express Scripts/Cigna) on the Fortune 500 list of the largest corporations by revenue.

7. Because of their size and the roles their affiliated entities play in the pharmaceutical system, CVS Caremark, OptumRx, and Express Scripts have near complete control of the pricing, dispensing, and reimbursement systems for the at-issue diabetes medications<sup>1</sup> for their covered lives.<sup>2</sup> The PBM Defendants affect nearly every diabetic drug transaction in Texas.

8. While the PBM Defendants represent that they perform their services on behalf of their clients (including Texas payors) and diabetics to lower drug prices, increase access to affordable drugs, and promote diabetic health, these representations are false. Rather, the PBM Defendants have worked in coordination

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<sup>1</sup> In the context of this Petition, the “at-issue drugs” are Humulin N, Humulin R, Humalog, Trulicity, Basaglar, Lantus, Toujeo, Apidra, Soliqua, Mounjaro, Xultophy, Adylin, Novolin R, Novolin N, Novolog, Levemir, Tresiba, Victoza, and Ozempic.

<sup>2</sup> “Covered lives” refer to patients that are enrolled in health plans covered by a PBM.

with the Manufacturer Defendants to distort the market for diabetic treatments to their benefit at the expense of Texas diabetics and payors.

9. As part of their work, PBM Defendants design and implement drug formularies (i.e., approved drug lists).

10. Drug formularies are tiered lists which determine which drugs are available, at what out-of-pocket cost, and with what restrictions for insured consumers.

11. The PBM Defendants' formularies play a crucial role in their ability to control drug availability and price.

12. If a drug is not included on a formulary, then it is not covered by health insurance.

13. PBM Defendants understand that their standard formulary offerings drive drug utilization and control access.

14. Because the three PBM Defendants control 80% of the pharmacy benefit market, unless they include a drug on one of their standard formulary offerings, it is not available to 80% of Texas's insured citizens.

15. The Manufacturers likewise understand that PBMs' standard formularies drive drug utilization—if Manufacturers want their drugs to be prescribed and paid for they must obtain preferable formulary positions on the PBM Defendants' formularies.

16. Given the PBMs' market power and the crucial role their standard formularies play in the pharmaceutical drug market, both Defendant groups

understand that the PBM Defendants wield enormous control over access, drug prices, and drug purchasing behavior.

17. The unlawful scheme at the root of this Petition—the Insulin Pricing Scheme—was born from this mutual understanding.

18. Over the course of the last fifteen years, and pursuant to the Insulin Pricing Scheme, Manufacturer Defendants have raised the list prices<sup>3</sup> of their respective diabetes drugs in an astounding manner despite the fact that the cost to produce these drugs has decreased during that same time period.

19. Insulins, which today cost Manufacturer Defendants less than \$2 to produce and which were originally priced at \$20 when released in the late 1990s, now range between \$300 and \$700.

20. In the last decade alone, Manufacturer Defendants have increased the prices of their insulins up to 1000%.

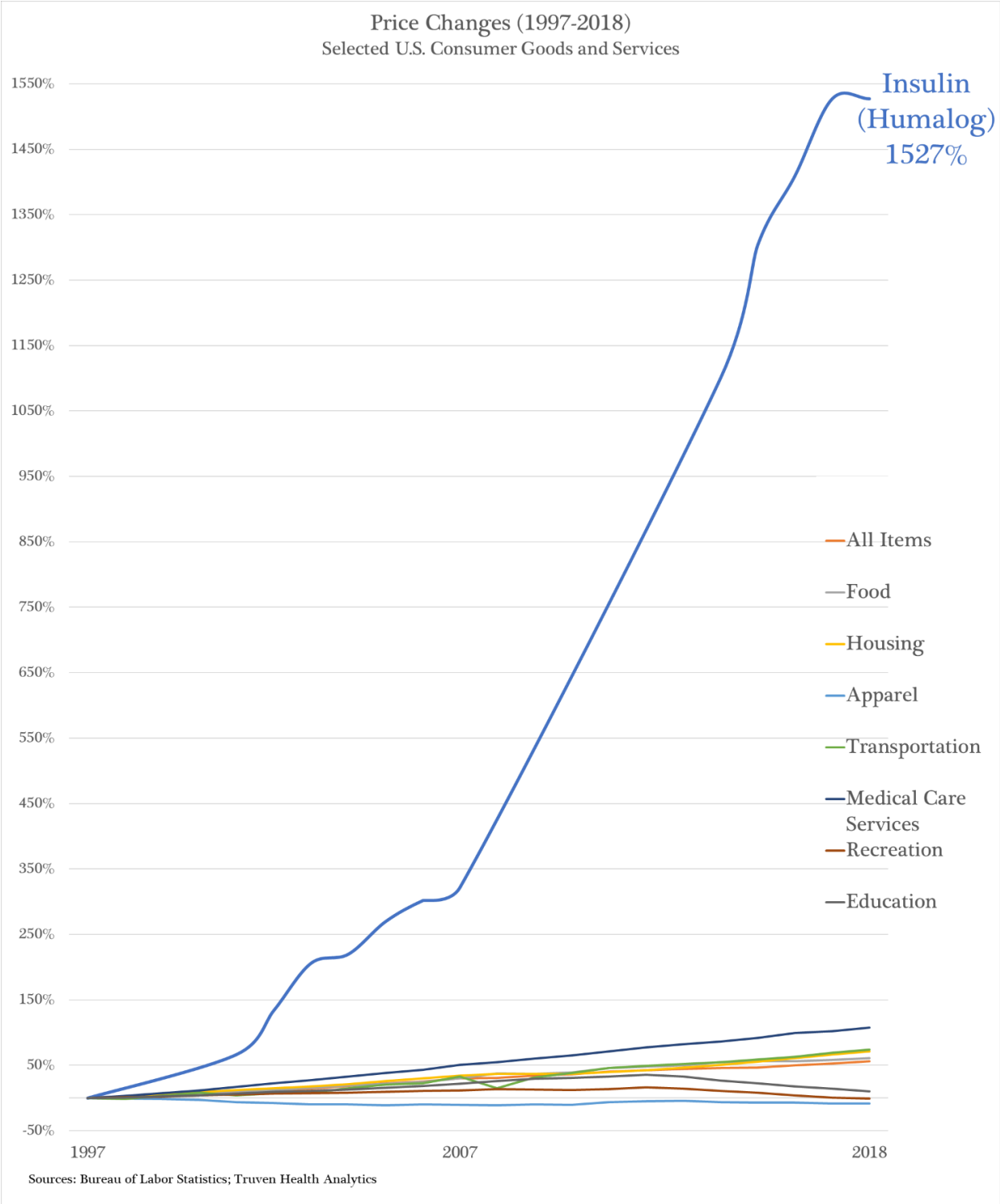
21. Figure 1 illustrates the rate at which Defendant Eli Lilly raised the price of its analog insulin, Humalog, compared to the rate of inflation for other consumer goods and services from 1997-2018.

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<sup>3</sup> The “list price” for a drug is the price that the Manufacturers set for each brand drug. Most commonly, “list price” refers to the wholesale acquisition cost (“WAC”) and/or the average wholesale price (“AWP”).



**Figure 1: Price Increase of Insulin vs. Selected Consumer Goods  
1997-2018**



22. Remarkably, nothing about these medications has changed; today's \$350 insulin is the exact drug Defendants originally sold for \$20.

23. The current unlawfully inflated price stands in stark contrast to insulin's origins: the discoverers sold the original patent for \$1 to ensure that the medication would remain affordable. Today, insulin has become the poster child for skyrocketing and inflated drug prices.

24. Both Manufacturer and PBM Defendants play vital roles and profit immensely from the Insulin Pricing Scheme and the artificially inflated prices produced by it.

25. Specifically, the Insulin Pricing Scheme works as follows: first, to gain formulary access from the PBM Defendants for their diabetic treatments, Manufacturer Defendants artificially and willingly raise their list prices, and then pay a significant, yet undisclosed, portion of that price back to the PBMs. These Manufacturer Payments<sup>4</sup> are provided under a variety of labels, yet, however they are

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<sup>4</sup> In the context of this Petition, the term "Manufacturer Payments" is defined as all payments or financial benefits of any kind conferred by the Manufacturer Defendants to PBM Defendants (or a subsidiary, affiliated entity, or group purchasing organization or rebate aggregator acting on the PBM's behalf), either directly via contract or indirectly via Manufacturer-controlled intermediaries. Manufacturer Payments include but are not limited to administrative fees, clinical detailing, commissions, credits, data analysis fees, data management fees, data sales fees, discounts, drug pull-through programs, educational grants, formulary placement fees, health management fees, implementation allowances, indirect purchase fees/rebates, inflation fees/rebates, interest, mail order purchase discounts, market share incentives/rebates/fees, medication monitoring fees, performance based incentives, pharmacy supplemental discounts, price concessions, price or margin guarantees, price protection fees/rebates, prompt payment discounts, portal fees, enterprise fees, data fees, promotional allowances, rebates, rebate submission fees, reimbursement for research projects, utilization management fees, volume discounts, and any other form of consideration. This broad definition is necessary because PBMs historically have continued to change and evolve the nature of their payment streams to avoid disclosure to clients and disclosure pursuant to state transparency laws. While the route by which the payment streams reach the PBMs has evolved, the fact that the payments do, in fact, reach the PBMs has remained the same.

described, these Manufacturer Payments, along with the inflated list prices, are *quid pro quo* for formulary inclusion on the PBMs' standard offerings.

26. The PBM Defendants then grant preferred status on their standard formularies to the drugs with the largest Manufacturer Payments and the highest list price, while at the same excluding lower priced diabetic treatments.

27. To make matters worse, rather than fully pass through these Manufacturer Payments to diabetics or their clients to lower the prices, the PBM Defendants instead obfuscate and retain significant amounts of these Manufacturer Payments as profit.

28. Moreover, around 2012, PBM Defendants began to implement a bold new formulary strategy by creating so-called "exclusionary" formularies which entirely exclude (i.e. do not cover or list) one or more drugs used to treat the same condition. The PBM Defendants created exclusionary formularies to further drive up their own profits. As a result of exclusionary formularies, the PBM Defendants were able to significantly increase the amount of Manufacturer Payments that they were receiving from the Manufacturer Defendants.

29. In order to maintain their profit margins, the Manufacturer Defendants further raised their list prices in order to make larger and larger Manufacturer Payments to the PBM Defendants.

30. The list prices for the at-issue drugs have become so untethered from the net prices realized by the Manufacturers as to constitute a false price.<sup>5</sup>

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<sup>5</sup> "Net price" refers to the Manufacturer Defendants' list price minus all of the Manufacturer Payments made to the PBM Defendants.

31. The Insulin Pricing Scheme creates a “best of both worlds” scenario for Defendants. Manufacturer Defendants are able to make these undisclosed Manufacturer Payments to buy preferred formulary position—which significantly increases their revenue—without sacrificing their profits.

32. For the PBM Defendants—contrary to their representations—they make more money from diabetic drugs with higher list prices and higher Manufacturer Payment amounts.

33. In particular, the PBM Defendants profit off the inflated list prices that result from the Scheme in numerous ways, including: (1) retaining a significant—yet undisclosed—percentage of the Manufacturer Payments, either directly or through wholly owned rebate aggregators; (2) using the inflated list prices produced by the Insulin Pricing Scheme to generate profits from pharmacies in their networks; and (3) relying on those same inflated list prices to drive up the PBMs’ profits through their own retail, specialty, and mail order pharmacies.

34. With respect to their affiliated pharmacies, the PBM Defendants steer their clients’ prescription-drug plans to those pharmacies, including Defendant CVS Pharmacy, and then overcharge for the at-issue drugs dispensed at those pharmacies to further profit from the Insulin Pricing Scheme.

35. Thus, while the PBM Defendants represent both publicly and to their clients that they use their market power to drive down prices for diabetes medications and increase access to affordable drugs, these representations are patently false.

36. Rather, the PBM and Manufacturer Defendants are working together to drive up drug prices for Texas diabetics and payors and foreclose access to lower priced diabetic treatments in order to increase their profits.

37. Because the PBM Defendants control which drugs are available for the vast majority of Texas diabetics and payors and because the price paid by nearly every diabetic and payor is based upon the artificially inflated list prices generated by Defendants' scheme, the Insulin Pricing Scheme directly harms every diabetic and payor in Texas who purchase these life-sustaining drugs.

38. The consequence to Texas public health and the public fisc caused by the Insulin Pricing Scheme cannot be overstated.

39. Texas diabetics and payors have been overcharged millions of dollars a year as a result of the Insulin Pricing Scheme.

40. Further, the Insulin Pricing Scheme and the PBM Defendants' formulary exclusions have cut off access for Texas diabetics to lower priced, affordable diabetic treatments.

41. For Texas diabetics, the physical, emotional, and financial tolls caused by the Insulin Pricing Scheme are devastating. Unable to afford the drugs their doctors prescribe, many diabetics in Texas ration or under-dose their diabetes medications, inject expired insulin, reuse needles, and starve themselves to control their blood sugars. This behavior is extremely dangerous and has led to serious complications or even death.

42. In addition to the immeasurable human costs, the Insulin Pricing Scheme also adds substantial costs to the Texas health care system by increasing preventable complications. For example, one national model found that all people with diabetes adhering to their diabetes medications would save \$8.3 billion in direct medical costs per year by averting one million emergency department visits and 618,000 hospitalizations.

43. Insulin rationing and the resulting otherwise-avoidable health complications caused by the Insulin Pricing Scheme also leads to a loss in productivity and tax revenue, further damaging the State.

44. The Honorable Ken Paxton, Attorney General brings this action on behalf of Texas consumers—including Texas diabetics and businesses (as payors of the at-issue drugs through their employee health plans)—to protect the health and economic well-being of the State as a whole and the health and economic well-being of Texas residents and businesses.

45. This action asserts causes for Defendants’ violations of the DTPA, unjust enrichment, and civil conspiracy.

46. This action seeks injunctive relief, restitution, disgorgement, damages, civil penalties, and attorneys’ fees to address and abate the harm caused by the Insulin Pricing Scheme.

## II. PARTIES

### A. Plaintiff

47. **Plaintiff, the State of Texas.** The State of Texas is the sole Plaintiff in this action, brought in its name on relation of the Attorney General, the Honorable

Ken Paxton. Acting as the chief law officer for the State and possessing all the power and authority under the common law and statute, the Attorney General institutes this action to protect the State's sovereign interest in the health and economic interests of its residents and its own interests and the integrity of its marketplace.

48. By virtue of his office, Attorney General Ken Paxton is the chief legal officer for the State of Texas. The State of Texas works to safeguard, protect and preserve the health, safety, and welfare of the citizens of Texas.

49. The State of Texas has a sovereign interest in the economic and physical well-being of Texas residents and businesses and in the maintenance of the integrity of Texas's economic and healthcare system.

50. The State is charged with, among other things, enforcing and seeking redress for violations of consumer protection laws, including the DTPA.

51. The Texas Attorney General is authorized under the DTPA, TEX. BUS. & COMM. CODE § 17.47, to sue to enforce the Act's prohibitions on acts and practices declared unlawful under the DTPA.

## **B. Manufacturer Defendants**

52. **Defendant Eli Lilly and Company ("Eli Lilly")** is an Indiana corporation with its principal place of business at Lilly Corporate Center, Indianapolis, Indiana 46285.

53. Eli Lilly may be served through its registered agent: National Registered Agents, Inc., 1999 Bryan St., STE. 900 Dallas, TX 75201.

54. Eli Lilly is registered to do business in Texas and holds two licenses with the Texas Department of State Health Services.

55. In Texas, Eli Lilly promotes and distributes several at-issue diabetes medications: Humulin N, Humulin R, Humalog, Mounjaro, Trulicity, and Basaglar.

56. Eli Lilly's global revenues in 2023 were \$7.13 billion from Trulicity, \$1.66 billion from Humalog, \$852 million from Humulin, \$5.16 billion from Mounjaro, and \$728 million from Basaglar.

57. Eli Lilly's global revenues in 2022 were \$7.43 billion from Trulicity, \$2.06 billion from Humalog, \$1.01 billion from Humulin, \$482 million from Mounjaro, and \$760 million from Basaglar.

58. Eli Lilly transacts business in Texas, targeting Texas for its products, including the at-issue diabetes medications.

59. Eli Lilly employs sales representatives throughout Texas to promote and sell Humulin N, Humulin R, Humalog, Mounjaro, Trulicity and Basaglar.

60. Eli Lilly also directs advertising and informational materials to Texas physicians, payors, pharmacies, and diabetics for the specific purpose of selling more of the at-issue drugs in Texas and profiting from the Insulin Pricing Scheme.

61. At all times relevant hereto, in furtherance of the Insulin Pricing Scheme, Eli Lilly caused its artificially inflated list prices for the at-issue diabetes medications to be published throughout Texas with the express knowledge that payment and reimbursement by Texas diabetics and payors would be based on these prices.



62. During the relevant time period, diabetics in Texas spent millions of dollars per year out of pocket on Eli Lilly's at-issue drugs based on Eli Lilly's artificially inflated list prices.

63. Texas diabetics and payors paid for all of the Eli Lilly diabetes medications in Texas based on the specific inflated list prices Eli Lilly caused to be published in Texas in furtherance of the Insulin Pricing Scheme.

64. **Defendant Sanofi-Aventis U.S. LLC ("Sanofi")** is a Delaware limited liability company with its principal place of business at 55 Corporate Drive, Bridgewater, New Jersey 08807.

65. Sanofi may be served through its registered agent: Corporation Service Company, 211 E. 7<sup>th</sup> Street Suite 620 Austin, TX 78701

66. Sanofi is registered to do business in Texas and holds three licenses with the Texas Department of State Health Services.

67. Sanofi promotes and distributes pharmaceutical drugs in Texas, including several at-issue diabetes medications: Lantus, Toujeo, Soliqua, Adlyxin, and Apidra.

68. Sanofi's global revenues in 2023 were \$1.67 billion from Lantus and \$1.32 billion from Toujeo, and \$256 million from Soliqua. Apidra global revenues in 2020 were \$391 million.

69. Sanofi's global revenues in 2022 were \$2.66 billion from Lantus, \$1.31 billion from Toujeo, and \$253 million from Soliqua. Apidra global revenues in 2019 were \$405 million.

70. Sanofi transacts business in Texas and targets Texas for its products, including the at-issue diabetes medications.

71. Sanofi employs sales representatives throughout Texas to promote and sell Lantus, Toujeo, Soliqua, Adlyxin, and Apidra.

72. Sanofi also directs advertising and informational materials to Texas physicians, payors, pharmacies, and diabetics for the specific purpose of selling more of the at-issue drugs in Texas and profiting from the Insulin Pricing Scheme.

73. At all times relevant hereto, in furtherance of the Insulin Pricing Scheme, Sanofi caused its artificially inflated list prices for the at-issue diabetes medications to be published throughout Texas with the express knowledge that payment and reimbursement by Texas diabetics and payors would be based on these prices.

74. During the relevant time period, diabetics in Texas spent millions of dollars per year out of pocket on Sanofi's at-issue drugs based on Sanofi's artificially inflated list prices.

75. Texas diabetics and payors paid for all of the Sanofi diabetes medications in Texas based on the specific inflated prices Sanofi caused to be published in Texas in furtherance of the Insulin Pricing Scheme.

76. **Defendant Novo Nordisk Inc. ("Novo Nordisk")** is a Delaware corporation with its principal place of business at 800 Scudders Mill Road, Plainsboro, New Jersey 08536.

77. Novo Nordisk is registered to do business in Texas and may be served through its registered agent: C T Corporation System, 1999 Bryan St., STE. 900 Dallas, TX 75201.

78. Novo Nordisk is registered to do business in Texas and holds two licenses with the Texas Department of State Health Services.

79. Novo Nordisk promotes and distributes pharmaceutical drugs in Texas, including at-issue diabetic medications: Novolin R, Novolin N, Novolog, Levemir, Tresiba, Victoza, Xultophy, Rybelsus, and Ozempic.

80. Novo Nordisk's global revenues in 2023 were \$3.13 billion from Novolog, \$629 million from Levemir, \$1.24 billion from Tresiba, \$1.38 billion from Victoza, \$515 million from Xultophy, \$3 billion from Rybelsus, and \$15.31 billion from Ozempic.

81. Novo Nordisk's global revenues in 2022 were \$3.7 billion from Novolog, \$732 million from Levemir, \$1.49 billion from Tresiba, \$1.97 billion from Victoza, \$449 million from Xultophy, \$1.8 billion from Rybelsus, and \$9.56 billion from Ozempic.

82. Novo Nordisk transacts business in Texas, targeting Texas for its products, including the at-issue diabetes medications.

83. Novo Nordisk employs sales representatives throughout Texas to promote and sell Novolin R, Novolin N, Novolog, Levemir, Tresiba, Victoza, Xultophy, Rybelsus, and Ozempic.

84. Novo Nordisk also directs advertising and informational materials to Texas physicians, payors, pharmacies, and diabetics for the specific purpose of selling more of the at-issue drugs in Texas and profiting from the Insulin Pricing Scheme.

85. At all times relevant hereto, in furtherance of the Insulin Pricing Scheme, Novo Nordisk caused its artificially inflated list prices for the at-issue diabetes medications to be published throughout Texas with the express knowledge that payment and reimbursement by Texas diabetics and payors would be based on these prices.

86. During the relevant time period, diabetics in Texas spent millions of dollars per year out of pocket on Novo Nordisk's at-issue drugs based on Novo Nordisk's artificially inflated list prices.

87. Texas diabetics and payors paid for all of the Novo Nordisk diabetes medications in Texas based on the specific inflated prices Sanofi caused to be published in Texas in furtherance of the Insulin Pricing Scheme.

88. Collectively, Defendants Eli Lilly, Novo Nordisk, and Sanofi are referred to as "Manufacturer Defendants" or "Manufacturers."

### **C. PBM Defendants**

89. **Defendant CVS Health Corporation ("CVS Health")** is a Delaware corporation with its principal place of business at One CVS Drive, Woonsocket, Rhode Island 02895. CVS Health transacts business and has locations throughout the United States and Texas.

90. CVS Health may be served through its registered agent: The Corporation Trust Company, Corporation Trust Center, 1209 Orange Street, Wilmington, Delaware 19801.

91. CVS Health, through its executives and employees, including its CEO, Chief Medical Officer, Executive Vice Presidents, Senior Executives in Trade Finance,

and Chief Communication Officers, is directly involved in the PBM services and formulary construction related to the Insulin Pricing Scheme that give rise to the State's claims.

92. Throughout the relevant time, CVS Health and its predecessor<sup>6</sup> have repeatedly, continuously, and explicitly stated that *CVS Health*:

- a. “design[s] pharmacy benefit plans that minimize the costs to the client while prioritizing the welfare and safety of the clients’ members and helping improve health outcomes;”<sup>7</sup>
- b. “negotiate[s] with pharmaceutical companies to obtain discounted acquisition costs for many of the products on [CVS Health’s] drug lists, and these negotiated discounts enable [CVS Health] to offer reduced costs to clients;”<sup>8</sup>
- c. “utilize[s] an independent panel of doctors, pharmacists and other medical experts, referred to as its Pharmacy and Therapeutics Committee, to select drugs that meet the highest standards of safety and efficacy for inclusion on [CVS Health’s] drug lists.”<sup>9</sup>

93. CVS Health publicly represents that CVS Health constructs programs that lower the cost of the at-issue diabetes medications. For example, in 2016, CVS Health announced a new program to “reduce overall spending in diabetes” that is available in all states, including Texas, stating:

“*CVS Health* introduced a new program available to help the company’s pharmacy benefit management (PBM) clients to improve the health outcomes of their members, *lower pharmacy costs [for diabetes medications]* through aggressive trend management and decrease medical costs . . . [and that] participating clients could save between

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<sup>6</sup> Until 2014, CVS Health was known as “CVS Caremark.” In September 2014, “CVS Caremark Corporation announced that it is changing its corporate name to CVS Health to reflect its broader health care commitment and its expertise in driving the innovations needed to shape the future of health.”

<sup>7</sup> CVS Caremark/ CVS Health, Annual Reports (Form 10-K) (Dec. 31, 2009-2022).

<sup>8</sup> CVS Caremark/ CVS Health, Annual Reports (Form 10-K) (Dec. 31, 2009-2013).

<sup>9</sup> CVS Caremark/ CVS Health, Annual Reports (Form 10-K) (Dec. 31, 2009-2022).

\$3000 to \$5000 per year for each member who successfully improves control of their diabetes” (emphasis supplied).

94. In 2017, CVS Health stated that “*CVS Health* pharmacy benefit management (PBM) strategies reduced trend for commercial clients to 1.9 percent per member per year the lowest in five years. Despite manufacturer price increases of near 10 percent, *CVS Health* kept drug price growth at a minimal 0.2 percent.”

95. Throughout the relevant time period, the Manufacturer Defendants directly engaged with CVS Health executives in furtherance of the Insulin Pricing Scheme. Each Manufacturer Defendant has an entire team of executives dedicated exclusively to interacting with CVS Health.

96. Manufacturer Defendants have explicitly recognized that effectuating the Insulin Pricing Scheme requires intimacy and connection between the Manufacturer Defendants’ leaders and CVS Health’s leaders in order to align on strategic formulary management initiatives to ensure profitable access.

97. On a regular basis throughout the relevant period, the Manufacturer Defendants’ executive teams—which at times included their CEOs—met with CVS Health executives to discuss their coordinated efforts related to the at-issue drugs.

Examples include:

- a. In at least 2011, 2012, 2014, and 2016 the leaders of CVS Health and Novo Nordisk participated in executive exchange meetings in furtherance of the Insulin Pricing Scheme. These meetings included the Executive Vice President of CVS Health (Per Lofberg), the Chief Medical Officer of CVS Health (Dr. Troy Brennan), members of CVS Health’s Enterprise Operating Committee (Matthew Leonard), and key executives from Novo Nordisk.
- b. In at least 2012, 2013, 2016 and 2017, the leaders of CVS Health and Eli Lilly participated in numerous executive meetings in furtherance

of the Insulin Pricing Scheme. These meetings included the CEO of CVS Health (Per Lofberg), the COO of CVS Health (Jon Roberts), members of CVS Health's Enterprise Operating Committee (Matthew Leonard), the President of Eli Lilly (Alex Azar), and the Senior Vice President of Managed Care at Eli Lilly (Frank Cunningham), among others.

- c. In at least 2012, 2016 and 2017, the leaders of CVS Health and Sanofi participated in executive meetings which included discussions in furtherance of the Insulin Pricing Scheme. These meetings included the CEO of CVS Health, the COO of CVS Health and members of CVS Health's Enterprise Operating Committee, among others.

98. In November 2018, CVS Health acquired Aetna for \$69 billion and became the first combination of a major health insurer, PBM, mail order and retail pharmacy chain. As a result, CVS Health controls the health plan/insurer, the PBM and the pharmacies utilized by approximately 40 million Aetna members in the United States and in Texas. CVS Health controls the entire drug pricing chain for these 40 million Americans.

99. **Defendant CVS Pharmacy, Inc. ("CVS Pharmacy")** is a Rhode Island corporation whose principal place of business is at the same location as CVS Health. CVS Pharmacy is a wholly owned subsidiary of CVS Health.

100. CVS Pharmacy owns and operates approximately 700 pharmacies throughout Texas that are directly involved in and profit from the Insulin Pricing Scheme.

101. In its capacity as a retail pharmacy, CVS Pharmacy, working in conjunction with its corporate affiliate entities, knowingly assisted the CVS Health family in profiting from the Insulin Pricing Scheme by pocketing the spread between acquisition cost for the drugs at issue (an amount well below the list price generated

by the Insulin Pricing Scheme), and the amounts received from payors (which amounts were based on the artificially inflated list prices and, in many cases, were set by CVS Caremark in its capacity as a PBM).

102. CVS Pharmacy is the immediate and direct parent of Defendant Caremark Rx, LLC.

103. CVS Pharmacy is registered to do business in Texas and may be served through its registered agent: C T Corporation System, 1999 Bryan Street, Suite 900 Dallas, TX 75201.

104. During the relevant time period, CVS Pharmacy provided retail pharmacy services in Texas that gave rise to the Insulin Pricing Scheme, which damaged Texas diabetics and payors.

105. **Defendant Caremark Rx, LLC** is a Delaware limited liability company and its principal place of business is at the same location as CVS Pharmacy and CVS Health.

106. Caremark Rx, LLC is a wholly owned subsidiary of Defendant CVS Pharmacy.

107. Caremark Rx, LLC may be served through its registered agent: The Corporation Trust Company, Corporation Trust Center, 1209 Orange Street, Wilmington, Delaware 19801.

108. During the relevant time period, Caremark Rx, LLC provided PBM and mail order pharmacy services in Texas that gave rise to the Insulin Pricing Scheme and damaged diabetics and payors in Texas.



109. **Defendant Caremark, LLC** is a California limited liability company whose principal place of business is at the same location as CVS Health. Caremark, LLC is a wholly owned subsidiary of Caremark Rx, LLC.

110. Caremark, LLC is registered to do business in Texas may be served through its registered agent: C T Corporation System, 1999 Bryan Street, Suite 900 Dallas, TX 75201.

111. Caremark, LLC holds a license with the Texas Department of State Health Services, four licenses with the Texas State Board of Pharmacy, and one license with the Texas Department of Insurance.

112. During the relevant time period, Caremark, LLC provided PBM and mail order pharmacy services in Texas that gave rise to the Insulin Pricing Scheme, which damaged diabetics and payors in Texas.

113. **Defendant CaremarkPCS Health, LLC** is a Delaware limited liability company whose principal place of business is at the same location as CVS Health. CVS Health is the direct or indirect parent company of CaremarkPCS Health LLC.

114. CaremarkPCS Health, LLC provides pharmacy benefit management services.

115. CaremarkPCS Health, LLC is registered to do business in Texas and may be served through its registered agent: C T Corporation System, 1999 Bryan Street, Suite 900 Dallas, TX 75201.

116. CaremarkPCS Health, LLC holds a license with the Texas Department of Insurance.

117. During the relevant time period, CaremarkPCS Health, LLC provided PBM services in Texas, which gave rise to the Insulin Pricing Scheme and damaged diabetics and payors in Texas.

118. As a result of numerous interlocking directorships and shared executives, Caremark Rx, LLC, CVS Pharmacy, and CVS Health are directly involved in the conduct of and control CaremarkPCS Health, LLC and Caremark, LLC's operations, management and business decisions related to the at-issue formulary construction, Manufacturer Payments, and mail order and retail pharmacy services to the ultimate detriment of diabetics and payors in Texas. For example:

- a. During the relevant time period, these parent and subsidiaries have had common officers and directors. Examples include:
  - i. David Joyner is currently the Executive Vice President of CVS Health Corporation and also the President of CaremarkPCS Health, LLC;
  - ii. Thomas S. Moffatt was Vice President and Secretary of Caremark Rx, LLC, CaremarkPCS Health, LLC, and Caremark, LLC at the same time he was a Vice President, Assistant Secretary, and Assistant General Counsel at CVS Health and Director, Vice President, and Secretary at CVS Pharmacy;
  - iii. Melanie K. Luker was the Assistant Secretary of CVS Pharmacy, Caremark Rx, LLC, CaremarkPCS Health, LLC, and Caremark, LLC at the same time she was a Senior Manager of Corporate Services at CVS Health;
  - iv. Jonathan C. Roberts was an Executive Vice President and Chief Operating Officer at CVS Health at the same time he was CEO of Caremark Rx, LLC;

- v. Daniel P. Davison was the President of CaremarkPCS Health, LLC at the same time he was a Senior Vice President at CVS Health;
  - vi. Annie E. Klis was a Vice President at CVS Health at the same time she was CEO of Caremark, LLC.
- b. CVS Health directly or indirectly owns all the stock of CVS Pharmacy, Caremark Rx, LLC, Caremark, LLC and CaremarkPCS Health, LLC.
  - c. All of the executives of CaremarkPCS Health, LLC, Caremark, LLC, Caremark Rx, LLC, and CVS Pharmacy ultimately report to the executives at CVS Health, including the President and CEO of CVS Health.
  - d. CVS Health, as a corporate family, does not operate as separate entities. The public filings, documents, and statements of CVS Health presents its subsidiaries, including CVS Pharmacy, CaremarkPCS Health, LLC, Caremark, LLC, and Caremark Rx, LLC as divisions or departments of one unified “diversified health services company” that “works together across our disciplines” to “create unmatched human connections to transform the health care experience.” The day-to-day operations of this corporate family reflect these public statements. These entities are a single business enterprise and should be treated as such as to all legal obligations discussed in this Petition. The CVS Health enterprise and each of these entities, both individually and collectively, engaged in the at-issue conduct that gave rise to the Insulin Pricing Scheme.

119. Collectively, Defendants CVS Health, CVS Pharmacy, Caremark Rx, LLC, Caremark, LLC, and CaremarkPCS Health, LLC, including all predecessor and successor entities, are referred to as “CVS Caremark.”

120. CVS Caremark is named as a Defendant in its capacities as a PBM and retail and mail order pharmacy.

121. In its capacity as a PBM, CVS Caremark coordinates with Novo Nordisk, Eli Lilly, and Sanofi regarding the artificially inflated list prices for the at-issue

diabetes medications, the placement of these firms' diabetes medications on CVS Caremark's formularies, and the exclusion of lower priced diabetes medications.

122. CVS Caremark has the largest PBM market share based on total prescription claims managed, representing approximately 40% of the national market. CVS Caremark's pharmacy services segment generated over \$150 billion in total revenues last year. CVS Health's revenue increased to over \$350 billion in 2023.

123. At all times relevant hereto, CVS Caremark offered pharmacy benefit services to Texas payors and diabetics, and derived substantial revenue therefrom, and, in doing so, made the at-issue misrepresentations (discussed below) and utilized the artificially inflated prices generated by the Insulin Pricing Scheme to profit off Texas diabetics and payors.

124. At all times relevant hereto, CVS Caremark constructed standard formularies that are used nationwide, including by CVS Caremark's payor clients in Texas and that are relied on by residents in Texas with diabetes and payors as promoting diabetic health, increasing access to affordable diabetes medications, and lowering the price of the at-issue drugs. During the relevant time period, these standard formularies included drugs produced by the Manufacturer Defendants, including the at-issue diabetes medications.

125. At all times relevant hereto, and contrary to all its express representations, CVS Caremark has insisted that its payor clients, including in Texas, use the artificially inflated list prices produced by the Insulin Pricing Scheme as the basis for payment and reimbursement for the at-issue drugs.

126. At all times relevant hereto, CVS Caremark has concealed its critical role in the generation of those artificially inflated list prices.

127. In its capacity as a mail order and retail pharmacy, CVS Caremark dispensed the at-issue drugs to Texas diabetics and received payments from Texas diabetics and payors based on the artificially inflated prices produced by the Insulin Pricing Scheme and, as a result, damaged Texas diabetics and payors.

128. In its capacity as a retail pharmacy, CVS Caremark further profited from the artificially-inflated list prices produced by the Insulin Pricing Scheme by pocketing the spread between acquisition cost for the drugs at issue (an amount well below the list price generated by the Insulin Pricing Scheme), and the amounts they received from payors (which amounts were based on the artificially-inflated list prices and, in many cases, were set by CVS Caremark in its capacity as a PBM).

129. CVS Caremark purchases drugs produced by the Manufacturer Defendants, including the at-issue diabetes medications, for dispensing through its mail order and retail pharmacies including those located in Texas.

130. At all times relevant hereto, CVS Caremark had express agreements with Defendants Novo Nordisk, Sanofi, and Eli Lilly related to the Manufacturer Payments paid to CVS Caremark and placement on CVS Caremark's standard formularies, as well as agreements related to the Manufacturers' at-issue drugs sold through CVS Caremark's mail order and retail pharmacies, including those located in Texas.

131. **Defendant Evernorth Health, Inc. (“Evernorth”)**, formerly known as Express Scripts Holding Company, is a Delaware corporation with its principal place of business at 1 Express Way, St. Louis, Missouri 63121.<sup>10</sup>

132. Evernorth may be served through its registered agent: The Corporation Trust Company, Corporation Trust Center, 1209 Orange Street, Wilmington, Delaware 19801.

133. Evernorth, through its executives and employees is directly involved in shaping the company policies that inform its PBM services and formulary construction, including with respect to the at-issue drugs, related to the Insulin Pricing Scheme. For example, during the relevant time period Evernorth’s CEO Tim Wentworth was involved in communications with the Manufacturer Defendants related to the at-issue drugs and at-issue Manufacturer Payments.

134. Evernorth’s conduct has had a direct effect in Texas and damaged diabetics and payors in Texas.

135. On a regular basis, Evernorth executives and employees communicate with and direct its subsidiaries related to the at-issue PBM services and formulary activities.

136. Throughout the relevant time period, the Manufacturer Defendants directly engaged with Evernorth executives in furtherance of the Insulin Pricing

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<sup>10</sup> Until 2021, Evernorth Health, Inc. conducted business under the name Express Scripts Holding Company. For the purposes of this Petition “Evernorth” refers to Evernorth Health, Inc and Express Scripts Holding Company.

Scheme. Each Manufacturer Defendant has an entire team of executives dedicated exclusively to interacting with Evernorth.

137. Manufacturers recognize that effectuating the Insulin Pricing Scheme requires relationships with the executives between the Manufacturers and Evernorth.

138. On a regular basis throughout the relevant time period, these Manufacturer executive teams—which at times include the CEOs from these companies—met with Evernorth to discuss their coordinated efforts related to the at-issue drugs. Examples include:

- a. In at least 2013, 2014, 2015, 2017, and 2018 the leaders of Evernorth and Eli Lilly participated in executive meetings in furtherance of the Insulin Pricing Scheme. These meetings included the CEO of Evernorth (George Paz), Senior Director of Express Scripts Pharmaceutical Strategies & Solutions (Jason Zilocchi), CEO of Eli Lilly (John Lechlieter), Head of Eli Lilly’s diabetes division (Enrique Conterno), among others.
- b. In at least 2013, 2014, and 2016, the leaders of Evernorth and Novo Nordisk participated in executive meetings in furtherance of the Insulin Pricing Scheme.
- c. In at least 2014, 2015, 2016, and 2017 the leaders of Evernorth and Sanofi participated in “Customer Exchange” and PCMA executive meetings, which included discussions in furtherance of the Insulin Pricing Scheme. These meetings included the Chairman and CEO of Evernorth, the former President and current CEO, the Global CEO of Sanofi and Chief Medical Officer of Sanofi, among others.

139. Evernorth is the immediate or indirect parent of pharmacy and PBM subsidiaries that operate throughout Texas, which engaged in the activities that gave rise to this Petition.

140. In December 2018, Evernorth merged with Cigna in a \$67 billion deal to consolidate their businesses as a major health insurer, PBM and mail order pharmacy.

As a result, the Evernorth corporate family controls the health plan/insurer, the PBM and the mail order pharmacies utilized by approximately 15 million Cigna members in the United States and in Texas. Evernorth controls the entire drug pricing chain for these 15 million Americans.

141. In each annual report for at least the last decade, Evernorth has repeatedly, continuously, and explicitly stated:<sup>11</sup>

- a. “[Evernorth] is one of the largest PBMs in North America . . . [and Evernorth] help[s] health benefit providers address access and affordability concerns resulting from rising drug costs while helping to improve healthcare outcomes.”
- b. “[Evernorth] manage[s] the cost of the drug benefit by . . . assist in controlling costs; evaluat[es] drugs for efficacy, value and price to assist[ing] clients in selecting a cost-effective formulary; [and] offer[s] cost-effective home delivery pharmacy and specialty services that result in cost savings for plan sponsors [and better care for members] leveraging purchasing volume to deliver discounts to health benefit providers.”
- c. “[Evernorth] works with clients, manufacturers, pharmacists and physicians to increase efficiency in the drug distribution chain, to manage costs in the pharmacy benefit chain and to improve members’ health outcomes.”

142. **Defendant Express Scripts, Inc.** is a Delaware corporation and is a wholly owned subsidiary of Defendant Evernorth. Express Scripts, Inc.’s principal place of business is at the same location as Evernorth.

143. Express Scripts, Inc. may be served through its registered agent: C T Corporation System, 1999 Bryan Street, Suite 900 Dallas, TX 75201.

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<sup>11</sup> Express Scripts Annual Reports (Form 10-K) (Dec. 31, 2009-2019).



144. Express Scripts, Inc. holds two licenses with the Texas Department of Insurance.

145. Express Scripts, Inc. is the immediate or indirect parent of pharmacy and PBM subsidiaries that operate throughout Texas that engaged in the conduct, which gives rise to this Petition.

146. During the relevant time period, Express Scripts Inc. was directly involved in the PBM and mail order pharmacy services, which gave rise to the Insulin Pricing Scheme and damaged diabetics, the State, and payors in Texas.

147. **Defendant Express Scripts Administrators, LLC**, is a Delaware limited liability company and is a wholly owned subsidiary of Evernorth. Express Scripts Administrators, LLC's principal place of business is at the same location as Evernorth.

148. Express Scripts Administrators, LLC is registered to do business in Texas and may be served through its registered agent: C T Corporation System, 1999 Bryan Street, Suite 900 Dallas, TX 75201.

149. Express Scripts Administrators, LLC holds a license with the Texas Department of Insurance.

150. During the relevant time period, Express Scripts Administrators, LLC provided the PBM services in Texas discussed in this Petition that gave rise to the Insulin Pricing Scheme that damaged diabetics, the State, and payors in Texas.

151. **Defendant Medco Health Solutions, Inc. (“Medco”)** is a Delaware Corporation with its principal place of business located at 100 Parsons Pond Road, Franklin Lakes, New Jersey.

152. Medco is registered to do business in Texas and may be served through its registered agent: C T Corporation System, 1999 Bryan Street, Suite 900 Dallas, TX 75201.

153. Prior to merging with Express Scripts, Medco provided the at-issue PBM and mail order pharmacy services in Texas, which gave rise to the Insulin Pricing Scheme and damaged diabetics and payors in Texas.

154. In 2012, Express Scripts acquired Medco for \$29 billion.

155. Prior to the merger, Express Scripts and Medco were two of the largest PBMs in the United States and in Texas.

156. Prior to the merger, Medco provided the at-issue PBM and mail-order pharmacy services in Texas, which gave rise to the Insulin Pricing Scheme and damaged diabetics and payors in Texas.

157. Following the merger, all of Medco’s PBM and mail order pharmacy functions were combined into Express Scripts. The combined company (Medco and Express Scripts) continued under the name Express Scripts with all of Medco’s payor customers becoming Express Scripts’ customers. The combined company covered over 155 million lives at the time of the merger.

158. At the time of the merger, on December 6, 2011, in his testimony before the Senate Judiciary Committee, then CEO of Medco, David B Snow, publicly

represented that “the merger of Medco and Express Scripts will result in immediate savings to our clients and, ultimately, to consumers. This is because our combined entity will achieve even greater [Manufacturer Payments] from drug manufacturers and other suppliers.”

159. The then-CEO of Express Scripts, George Paz, during a Congressional subcommittee hearing in September 2011, echoed these sentiments: “A combined Express Scripts and Medco will be well-positioned to protect American families from the rising cost of prescription medicines.”

160. **Defendant ESI Mail Pharmacy Service, Inc.** is a Delaware corporation and is a wholly owned subsidiary of Defendant Evernorth. ESI Mail Pharmacy Service, Inc.’s principal place of business is at the same location as Evernorth.

161. ESI Mail Pharmacy Service, Inc. is registered to do business in Texas and may be served through its registered agent: C T Corporation System, 1999 Bryan Street, Suite 900 Dallas, TX 75201.

162. ESI Mail Pharmacy Service, Inc. holds six licenses with the Texas State Board of Pharmacy.

163. During the relevant time period, ESI Mail Pharmacy Service, Inc. provided the mail order pharmacy services in Texas discussed in this Petition, which gave rise to the Insulin Pricing Scheme and damaged diabetics and payors in Texas.

164. **Defendant Express Scripts Pharmacy, Inc.** is a Delaware corporation and is a wholly owned subsidiary of Defendant Evernorth. Express Scripts Pharmacy, Inc.'s principal place of business is at the same location as Evernorth.

165. Express Scripts Pharmacy, Inc. is registered to do business in Texas and may be served through its registered agent: C T Corporation System, 1999 Bryan Street, Suite 900 Dallas, TX 75201.

166. Express Scripts Pharmacy, Inc. holds five licenses with the Texas State Board of Pharmacy.

167. During the relevant time period, Express Scripts Pharmacy, Inc. provided the mail order pharmacy services in Texas discussed in this Petition, which gave rise to the Insulin Pricing Scheme and damaged diabetics and payors in Texas.

168. Collectively ESI Mail Pharmacy Service, Inc and Express Scripts Pharmacy, Inc are referred to herein as "Express Scripts Pharmacy."

169. As a result of numerous interlocking directorships and shared executives, Evernorth and Express Scripts, Inc. are directly involved in the conduct of and control Express Scripts Administrators, LLC, Medco Health Solutions, Inc., ESI Mail Pharmacy Service, Inc., and Express Scripts Pharmacy, Inc's operations, management and business decisions related to the at-issue formulary construction, Manufacturer Payments, and mail order pharmacy services to the ultimate detriment of Texas diabetics, payors, and the State. For example:

- a. During the relevant time period, these parent and subsidiaries have had common officers and directors:

- i. Shared officers and/or directors between Express Scripts, Inc. and Evernorth include Bradley Phillips, Chief Financial Officer; David Queller, President; Jill Stadelman, Secretary; Timothy Smith, Vice President; and Scott Lambert, Treasury Manager Director;
  - ii. Common executives between Express Scripts Administrators, LLC and Evernorth include Bradley Phillips, Chief Financial Officer; and Priscilla Duncan, Associate Secretary;
  - iii. Shared officers and/or directors between ESI Mail Pharmacy Service, Inc. and Evernorth include Bradley Phillips, Chief Financial Officer; Priscilla Duncan, Associate Secretary; and Joanne Hart, Associate Treasurer;
  - iv. Shared officers and/or directors between Express Scripts Pharmacy, Inc. and Evernorth include Bradley Phillips, Chief Financial Officer; Jill Stadelman, Secretary; Scott Lambert, Treasury Manager Director; and Joanne Hart, Associate Treasurer; and
  - v. Shared officers and/or directors between Medco Health Solutions, Inc. and Evernorth include David Queller, President and Senior VP of Sales & Accounting; Christine Houston, VP and COO; Timothy Smith, VP and Treasurer; and all of the officers of Medco Health Solutions are also officers of Express Scripts, Inc.
- b. Evernorth directly or indirectly owns all the stock of Express Scripts Administrators, LLC, Medco Health Solutions, Inc., ESI Mail Pharmacy Service, Inc., Express Scripts Pharmacy, Inc. and Express Scripts, Inc.
  - c. The Evernorth corporate family does not operate as separate entities. The public filings, documents, and statements of Evernorth presents its subsidiaries, including Express Scripts Administrators, LLC, Medco Health Solutions, Inc., ESI Mail Pharmacy Service, Inc., Express Scripts Pharmacy, Inc., and Express Scripts, Inc. as divisions or departments of a single company that “unites businesses that have as many as 30+ years of experience . . . [to] tak[e] health services further with integrated data and analytics that help us deliver better care to more people.” The day-to-day operations of this corporate family reflect these public statements. All of these entities are a single business enterprise and should be treated as such as to all legal

obligations detailed in this Petition. The Evernorth enterprise and each of these entities, both individually and collectively, engaged in the at-issue conduct that gave rise to the Insulin Pricing Scheme.

- d. All of the executives of Express Scripts Administrators, LLC, ESI Mail Pharmacy Service, Inc., Medco Health Solutions, Inc., Express Scripts Pharmacy, Inc., and Express Scripts, Inc. ultimately report to the executives, including the CEO, of Evernorth.
- e. As stated above, Evernorth's CEO and other executives and officers are directly involved in the policies and business decisions of Express Scripts Administrators, LLC, ESI Mail Pharmacy Service, Inc., Medco Health Solutions, Inc., Express Scripts Pharmacy, Inc., and Express Scripts, Inc. that give rise to the State's claims in this Petition.

170. Collectively, Defendants Evernorth Health, Inc., Express Scripts, Inc., Express Scripts Administrators, LLC, ESI Mail Pharmacy Service, Inc., Medco Health Solutions, Inc., and Express Scripts Pharmacy, Inc., including all predecessor and successor entities, are referred to as "Express Scripts."

171. Express Scripts is named as a Defendant in its capacities as a PBM and mail order pharmacy.

172. In its capacity as a PBM, Express Scripts coordinates with Novo Nordisk, Eli Lilly, and Sanofi regarding the artificially inflated list prices for the at-issue diabetes medications, the placement of these firms' diabetes medications on Express Scripts' formularies, and the exclusion of lower priced diabetes medications.

173. Prior to merging with Cigna in 2019, Express Scripts was the largest independent PBM in the United States. During the relevant period of this Petition, Express Scripts controlled 30% of the PBM market in the United States.

174. Express Scripts has only grown larger since the Cigna merger.

175. Express Scripts' annual revenue is over \$100 billion.

176. Express Scripts has approximately 65,000 retail pharmacies in its pharmacy networks, representing over 98% of all retail pharmacies in the nation.

177. At all times relevant hereto, Express Scripts offered pharmacy benefit services, and derived substantial revenue therefrom, in Texas and provided the at-issue PBM services to numerous payors and diabetics in Texas.

178. At all times relevant hereto, and contrary to all of their express representations, Express Scripts has insisted that its payor clients, including those in Texas, use the artificially inflated list prices produced by the Insulin Pricing Scheme as the basis for reimbursement of the at-issue drugs.

179. At all times relevant hereto, Express Scripts has concealed its critical role in the generation of those artificially inflated list prices.

180. At all times relevant hereto, Express Scripts constructed standard formularies that are used nationwide, including by Express Scripts' payor clients in Texas, and that are relied on by Texas diabetics and payors as promoting diabetic health, increasing access to affordable diabetes medications, and lowering the price of the at-issue drugs. During the relevant time period, these standard formularies included the at-issue diabetes medications and excluded lower-priced drugs.

181. During certain years when some of the largest at-issue price increases occurred, including in 2013 and 2014, Express Scripts worked directly with OptumRx to obtain Manufacturer Payments on behalf of OptumRx and its clients in exchange for preferred formulary placement. For example, in a February 2014 email released

by the U.S. Senate in conjunction with its January 2021 report titled “Insulin: Examining the Factors Driving the Rising Cost of a Century Old Drug” (“January 2021 Senate Insulin Report”), Eli Lilly describes a “Russian nested doll situation” in which Express Scripts was negotiating rebates on behalf of OptumRx related to the at-issue drugs for Cigna (which later would become part of Express Scripts).

182. In its capacity as a mail order pharmacy, Express Scripts dispensed the at-issue drugs to Texas diabetics and received payments from Texas diabetics and payors based on the artificially inflated prices produced by the Insulin Pricing Scheme and, as a result, damaged Texas diabetics and payors.

183. At all times relevant hereto, Express Scripts derived substantial revenue providing mail order pharmacy services in Texas.

184. Express Scripts purchases drugs produced by the Manufacturer Defendants, including the at-issue diabetes medications, for dispensing through its mail order pharmacies, including in Texas.

185. At all times relevant hereto, Express Scripts had express agreements with Defendants Novo Nordisk, Sanofi, and Eli Lilly related to the Manufacturer Payments paid to Express Scripts and placement on Express Scripts’ standard formularies, as well as agreements related to the Manufacturers’ at-issue drugs sold through Express Scripts’ mail order pharmacies, including those located in Texas.

186. In addition, starting in 2019, Express Scripts contracted with another large PBM, Prime Therapeutics, to (among other things) negotiate Manufacturer



Payments and to provide mail order and specialty pharmacy services for Prime Therapeutics' covered lives.

187. **Defendant UnitedHealth Group, Inc.** (“UnitedHealth Group” or “UHG”) is a corporation organized under the laws of Delaware with its principal place of business at 9900 Bren Road East, Minnetonka, Minnesota, 55343.

188. UnitedHealth Group, Inc. may be served through its registered agent: The Corporation Trust Company, Corporation Trust Center, 1209 Orange Street, Wilmington, Delaware 19801.

189. UnitedHealth Group, Inc. has an active Texas Taxpayer Number.

190. UnitedHealth Group, Inc. is a diversified managed healthcare company. UnitedHealth Group's revenue was in excess of \$370 billion in 2023, and the company is currently ranked fifth on the Fortune 500 list. UnitedHealth Group, Inc. offers a spectrum of products and services including health insurance plans and pharmacy benefits through its wholly-owned subsidiaries.

191. More than one-third of the overall revenues of UnitedHealth Group come from OptumRx and OptumInsight.

192. UnitedHealth Group, through its executives and employees, is directly involved in the company policies that inform its PBM services and formulary construction, including with respect to the at-issue drugs and related to the Insulin Pricing Scheme. For example, executives of UnitedHealth Group structure, analyze, and direct the company's overarching, enterprise-wide policies, including PBM and mail-order services, as a means of maximizing profits across the corporate family.

193. UnitedHealth Group’s Sustainability Report states that “OptumRx works directly with pharmaceutical manufacturers to secure discounts that lower the overall cost of medications and create tailored formularies—or drug lists—to ensure people get the right medications. [UnitedHealth Group] then negotiate[s] with pharmacies to lower costs at the point of sale . . . [UnitedHealth Group] also operate[s] [mail order pharmacies] . . . [UnitedHealth Group] work[s] directly with drug wholesalers and distributors to ensure consistency of the brand and generic drug supply, and a reliance on that drug supply.”

194. On a regular basis throughout the relevant time period, executive teams from each Manufacturer Defendant—including at times their CEOs—met with executives from UnitedHealth Group to discuss their coordinated efforts in furtherance of the Insulin Pricing Scheme. Examples include:

- a. In at least in 2010, 2016, 2017, and 2018, executives from UnitedHealth Group, including its CEOs (including Steve Hemsley), the Executive Vice President of Corporate Affairs, Senior Directors of Diabetes Alliance, CEOs of OptumRx (including Mark Thierer), and the Executive Vice President of OptumRx, met and/or engaged in discussions with executives at Eli Lilly, including CEO Dave Ricks, that included discussions in furtherance of the Insulin Pricing Scheme.
- b. In 2014, the CEO and Senior Vice President of UnitedHealth Group met with executives at Novo Nordisk and engaged in discussions in furtherance of the Insulin Pricing Scheme.
- c. In at least 2014 and 2018, executives at UnitedHealth Group, including CEOs, met with executives at Sanofi, including the CEO of Sanofi, to engage in discussions in furtherance of the Insulin Pricing Scheme. Sanofi’s stated objective for these meetings was to “[l]everage the entire Sanofi portfolio of assets to set the stage for future business development with UHG, along with establishing a stronger executive level strategic relationship with UHG.”

d. In April 2015, the Executive Vice President at UnitedHealth Group, the Chief Commercial Officer at Optum Analytics, the Vice President of OptumRx, the Vice President of OptumInsight, among other executives, met with Novo Nordisk's Vice President of Market Access and the Executive Vice President of Strategic Accounts, among other executives from Novo Nordisk, at UnitedHealth Group's corporate headquarters to discuss their strategic overview and prioritized opportunities in diabetes in furtherance of the Insulin Pricing Scheme.

195. In 2011, UnitedHealth Group aligned its formularies across all their segments (Medicare, commercial and managed care) and moved to one Pharmacy & Therapeutics Committee in 2012. This effort also included tasking OptumRx with negotiating Manufacturer Payments and Manufacturer contracts for all UnitedHealth Group enterprise-wide formularies.

196. UnitedHealth Group's conduct had a direct effect in Texas and damaged diabetics and payors in Texas.

197. **Defendant OptumInsight, Inc.** is a Delaware corporation with its principal place of business located in Eden Prairie, Minnesota.

198. OptumInsight, Inc. is registered to do business in Texas and may be served through its registered agent: C T Corporation System, 1999 Bryan Street, Suite 900 Dallas, TX 75201.

199. OptumInsight, Inc. holds an insurance license in Texas.

200. During the relevant time period, due to name changes and mergers, a number of different entities make up what is now known as OptumInsight, including Ingenix, Innovus, i3, QualityMetric, Htanalytics, ChinaGate, CanReg, and the Lewin

Group. For the purposes of this Petition, “OptumInsight” refers to and includes each of these entities.

201. OptumInsight is an integral part of the Insulin Pricing Scheme. During the relevant time period, OptumInsight coordinated directly with the Manufacturer Defendants in furtherance of the Scheme. OptumInsight analyzed data and other information from the PBM and Manufacturer Defendants to advise Defendants as to the profitability of the Insulin Pricing Scheme for the benefit of all Defendants.

202. Each Manufacturer Defendant has dedicated executives assigned to OptumInsight for the purpose of collaborating with key executives and coordinating with OptumInsight for data acquisition and utilization.

203. The Manufacturers utilize their relationships with OptumInsight to deepen their ties to the overall UnitedHealth Group corporate family and to secure formulary wins for their diabetes medications. During the relevant time period, OptumInsight provided data and analytics to the Manufacturer Defendants related to the at-issue drugs, including the identity of particular pharmacies selling the most at-issue drugs. The Manufacturers used this data to increase sales in furtherance of the Insulin Pricing Scheme.

204. Each Manufacturer Defendant also contracted with OptumInsight during the relevant time period.

205. During the relevant time period, OptumInsight partnered with OptumRx to provide the at-issue pharmacy benefit and data and cost analytic services

that gave rise to the Insulin Pricing Scheme which resulted in harm to Texas diabetics and payors.

206. During the relevant time period, OptumInsight's data collection and analysis included prescription claims data related to Texas diabetics' and health plans' utilization of the at-issue drugs, for use in its data and cost analytics efforts in furtherance of the Insulin Pricing Scheme.

207. **Defendant OptumRx, Inc. ("OptumRx")** is a California corporation with its principal place of business at 2300 Main St., Irvine, California, 92614.

208. OptumRx is registered to do business in Texas and may be served through its registered agent: C T Corporation System, 1999 Bryan Street, Suite 900 Dallas, TX 75201.

209. OptumRx holds four licenses with the Texas State Board of Pharmacy and an insurance license in Texas.

210. During the relevant time period, OptumRx, Inc. provided the PBM and mail-order pharmacy services in Texas that gave rise to the Insulin Pricing Scheme, which damaged diabetics and payors in Texas.

211. As a result of numerous interlocking directorships and shared executives, UnitedHealth Group is directly involved in the conduct and control of OptumInsight's and OptumRx's operations, management, and business decisions related to the at-issue formulary construction, negotiations, and mail-order pharmacy services to the ultimate detriment of Texas diabetics and payors. For example:

- a. These parent and subsidiaries have common officers and directors, including:

- i. Sir Andrew Witty is president of UnitedHealth Group and CEO of Optum, Inc.;
  - ii. Dan Schumacher is president of Optum, Inc., the Chief Strategy and Growth Officer at UnitedHealth Group, Inc. and oversees OptumInsight;
  - iii. Terry Clark is a senior vice president and chief marketing officer at UnitedHealth Group and also oversees the branding, marketing, and advertising for UnitedHealth Group and Optum, Inc.;
  - iv. Tom Roos serves as chief accounting officer for UnitedHealth Group and Optum, Inc.;
  - v. Heather Lang is Deputy General Counsel, Subsidiary Governance at UnitedHealth Group, Inc. and also Assistant Secretary at OptumRx, Inc.;
  - vi. Peter Gill is Vice President at UnitedHealth Group, Inc. and also Treasurer at OptumRx, Inc.;
  - vii. John Santelli leads Optum Technology, the leading technology division of Optum, Inc. serving the broad customer base of Optum and UnitedHealthcare and also serves as UnitedHealth Group's chief information officer;
  - viii. Eric Murphy is the Chief Growth and Commercial Officer for Optum, Inc. and has also led OptumInsight, Inc.; and
  - ix. Timothy Wicks, CFO and Executive Vice President of Industry and Network relations for OptumRx, Inc. also held "executive management positions" with UnitedHealth Group "including operations product management and business development roles at UnitedHealthcare, OptumInsight and most recently, Optum Shared Services."
- b. UnitedHealth Group directly or indirectly owns all the stock of OptumRx, Inc. and OptumInsight, Inc.
  - c. The UnitedHealth Group corporate family does not operate as separate entities. The public filings, documents, and statements of UnitedHealth Group presents its subsidiaries, including OptumRx,

Inc. and OptumInsight as divisions or departments of a single company that is “a diversified family of businesses” that “leverages core competencies” to “help[] people live healthier lives and helping make the health system work better for everyone.” The day-to-day operations of this corporate family reflect these public statements. These entities are a single business enterprise and should be treated as such as to all legal obligations detailed in this Petition. Indeed, UHG and OptumRx represent directly to their clients and potential clients in Texas that the “Optum family of companies—OptumRx, OptumHealth and OptumInsight—each wholly owned subsidiaries of UnitedHealth Group” work as a cohesive unit to offer the at-issue services related to the Insulin Pricing Scheme in Texas.

- d. The UnitedHealth Group enterprise and each of these entities, both individually and collectively, engaged in the at-issue conduct that gave rise to the Insulin Pricing Scheme.
- e. All the executives of OptumRx, Inc. and OptumInsight ultimately report to the executives, including the CEO, of UnitedHealth Group.

212. As stated above, UnitedHealth Group’s executives and officers are directly involved in the policies and business decisions of OptumRx, Inc. and OptumInsight that give rise to the State’s claims in this Petition.

213. OptumRx is named as a Defendant in its capacities as a PBM and mail-order pharmacy.

214. Collectively, Defendants UnitedHealth Group, OptumRx, Inc., and OptumInsight, Inc., including all predecessor and successor entities, are referred to as “OptumRx.”

215. OptumRx is named as a Defendant in its capacities as a PBM and mail order pharmacy.

216. In its capacity as a PBM, OptumRx coordinates with Novo Nordisk, Eli Lilly, and Sanofi regarding the artificially inflated list prices for the at-issue diabetes

medications, the placement of these firms' diabetes medications on OptumRx's formularies, and the exclusion of lower priced diabetes medications.

217. OptumRx provides PBM services to more than 65 million people in the nation through a network of more than 67,000 retail pharmacies and multiple delivery facilities.

218. OptumRx and OptumInsight generate over \$200 billion in annual revenue.

219. Prior to 2011, OptumRx was known as Prescription Solutions. In addition, as illustrated in Figure 13, OptumRx rose to power through numerous mergers with other PBMs. For example, in 2012, a large PBM, SXC Health Solutions Corp. bought one of its largest rivals, Catalyst Health Solutions Inc. in a roughly \$4.14 billion deal. Shortly thereafter, SXC Health Solutions Corp. renamed the company Catamaran Corp. Thereafter, OptumRx's parent company, UnitedHealth Group, bought Catamaran Corp. in a deal worth \$12.8 billion and combined Catamaran with OptumRx.

220. Prior to merging with OptumRx (or being renamed), Prescription Health Solutions, Catalyst Health Solutions, Inc., and Catamaran Corp. were conducting business in Texas and engaged in the at-issue PBM and mail order activities in Texas.

221. At all times relevant hereto, OptumRx derived substantial revenue providing pharmacy benefits in Texas.



222. At all times relevant hereto, and contrary to all their express representations, OptumRx has insisted that its payor clients, including its payor clients in Texas, use the artificially inflated list prices produced by the Insulin Pricing Scheme as the basis for reimbursement of the at-issue drugs.

223. At all times relevant hereto, OptumRx has concealed its critical role in the generation of those artificially inflated list prices.

224. At all times relevant hereto, OptumRx offered pharmacy benefit management services nationwide and constructed standard formularies that are used throughout Texas by payors and diabetics, and that are relied on by Texas diabetics and payors as promoting diabetic health, increasing access to affordable diabetes medications, and lowering the price of the at-issue drugs. During the relevant time period, these standard formularies included the at-issue diabetes medications and excluded lower priced drugs.

225. In its capacity as a mail order pharmacy, OptumRx dispensed the at-issue drugs to Texas diabetics and received payments from Texas diabetics and payors based on the artificially inflated prices produced by the Insulin Pricing Scheme and, as a result, damaged Texas diabetics and payors.

226. At all times relevant hereto, OptumRx purchased drugs produced by the Manufacturer Defendants, including the at-issue diabetes medications, and dispensed the at-issue medications to diabetics in Texas through its mail order pharmacies.

227. At all times relevant hereto, OptumRx had express agreements with Defendants Novo Nordisk, Sanofi, and Eli Lilly related to the Manufacturer Payments

paid by the Manufacturer Defendants to OptumRx, as well as agreements related to the Manufacturers' at-issue drugs sold through OptumRx's mail order pharmacies.

228. Collectively, CVS Caremark, OptumRx, and Express Scripts are referred to as "PBM Defendants" or "PBMs."

229. Collectively, the "PBM Defendants" and the "Manufacturer Defendants" are referred to as "Defendants."

### **III. PUBLIC INTEREST**

230. The Texas Attorney General believes this action to be in the public interest of the citizens and businesses of the State of Texas and brings this action pursuant to the DTPA and the Texas common law.

231. This action seeks, on behalf of the State of Texas and its citizens and businesses, legal and equitable relief to redress injury and damage, as well as injunctive relief seeking an end to Defendants' misconduct. The State of Texas has both a sovereign and a quasi-sovereign interest in protecting the well-being of millions of Texas diabetic citizens, as well as Texas businesses that pay for the at-issue drugs, who have been damaged, and continue to be damaged, by the Insulin Pricing Scheme.

232. The State of Texas is a real party in interest in this action. Acting as a constitutional officer of the State of Texas possessing all the power and authority under the common law and statute, the Attorney General institutes this action to protect the health and economic interests of its residents and businesses, its own interests and the integrity of its healthcare system. The Attorney General is authorized to bring this action on behalf of the State to recover damages, restitution,

penalties, disgorgement, injunctive relief and to remediate all harm arising out of—and provide full relief for—violations of Texas laws.

#### **IV. JURISDICTION AND VENUE**

233. The Texas Attorney General is authorized under the DTPA, TEX. BUS. & COMM. CODE § 17.47, to sue to enforce the Act’s prohibitions on acts and practices declared unlawful under the DTPA. Further, the amount in controversy exceeds this Court’s minimum jurisdictional requirements. Pursuant to TEX. R. OF CIV. P. 47(C), Plaintiff seeks monetary relief over \$1,000,000.

234. This Court has personal jurisdiction over each Defendant. Each Defendant: (a) transacts business and/or is registered to do business within Texas; (b) maintains substantial contacts in Texas; and (c) committed the violations of Texas statutes and the common law at issue in this lawsuit in whole or part within Texas. The Insulin Pricing Scheme has been directed at, and has had the foreseeable and intended effect of, causing injury to persons residing in, located in, or doing business in Texas, and to the State.

235. All of the at-issue transactions occurred in Texas and/or involved Texas residents and businesses.

236. Venue for this action properly lies in this Travis County pursuant to Section 15.002(a) and 15.005 of the TEX. CIV. PRAC. & REM. CODE because a substantial part of the events giving rise to the claims occurred in Travis County, Texas.

## V. FACTUAL ALLEGATIONS

### A. Diabetes and Insulin Therapy

#### 1. Diabetes: A growing epidemic

237. Diabetes is a disease that occurs when a person's blood glucose, also called blood sugar, is too high. In a non-diabetic person, the pancreas secretes the hormone insulin, which controls the rate at which food is converted to glucose, or sugar, in the blood. When there is not enough insulin or cells stop responding to insulin, too much blood sugar stays in the bloodstream. Over time, that can cause serious health problems, such as heart disease, vision loss, and kidney disease.

238. There are two basic types of diabetes. Roughly 90-95% of diabetics developed the disease because they do not produce enough insulin or have become resistant to the insulin their bodies do produce. Known as Type 2, this form of diabetes is often developed later in life. While Type 2 patients can initially be treated with tablets and other medications, in the long term most patients have to switch to insulin injections.

239. Type 1 diabetes occurs when a patient completely ceases insulin production. In contrast to Type 2 patients, people with Type 1 diabetes do not produce any insulin and, without regular injections of insulin, they will die.

240. Insulin and other diabetic treatments are a necessary part of life for those who have diabetes and interruptions to a diabetic's medication regimen can have severe consequences. Missed or inadequate therapy can trigger hyperglycemia and then diabetic ketoacidosis. Left untreated, diabetic ketoacidosis can lead to loss of consciousness and death within days.

241. The number of Americans with diabetes has exploded in the last half century. In 1958, only 1.6 million people in the United States had diabetes. By the turn of the century, that number had grown to over 10 million. Fourteen years later, the count tripled again. Now nearly 40 million people—10% of the country—live with the disease.

242. Likewise, the prevalence of diabetes in Texas has been steadily increasing, approximately 3.4 million Texans are now living with diabetes and an additional 7,142,000 Texas residents have prediabetes.

243. The burden of diabetes is not equally distributed in Texas. Diabetes is significantly more prevalent in impoverished regions; nearly 1 in 4 Texans who earn less than \$25,000 a year have diabetes.

## 2. Insulin: A century old drug

244. Despite its potentially deadly impact, diabetes is a highly treatable illness. For patients who are able to follow a prescribed treatment plan consistently, the health complications associated with the disease are avoidable.

245. Unlike many high-burden diseases, treatment for diabetes has been available for almost a century.

246. In 1922, Frederick Banting and Charles Best, while working at the University of Toronto, pioneered a technique for removing insulin from an animal pancreas that could then be used to treat diabetes. After discovery, Banting and Best obtained a patent and then sold it to the University of Toronto for \$1 (equivalent to \$14 today), explaining “[w]hen the details of the method of preparation are published

anyone would be free to prepare the extract, but no one could secure a profitable monopoly.”

247. After purchasing the patent, the University of Toronto contracted with Defendants Eli Lilly and Novo Nordisk to scale their production. Under this arrangement, Eli Lilly and Novo Nordisk were allowed to apply for patents on variations to the manufacturing process.

248. Although early iterations of insulin were immediately perceived as lifesaving, there have been numerous incremental improvements since its discovery. The earliest insulin was derived from animals and, until the 1980s, was the only treatment for diabetes.

249. While effective, animal-derived insulin created the risk of allergic reaction. This risk was lessened in 1982 when synthetic insulin, known as human insulin, was developed by Defendant Eli Lilly. Eli Lilly marketed this insulin as Humulin. The development of human insulin benefited heavily from government and non-profit funding through the National Institute of Health and the American Cancer Society.

250. Over a decade later, Defendant Eli Lilly developed the first analog insulin, Humalog, in 1996.

251. Analog insulin is laboratory grown and genetically altered insulin. Analogs are slight variations on human insulin that make the injected treatment act more like the insulin naturally produced and regulated by the body.

252. Other rapid-acting analogs are Defendant Novo Nordisk's Novolog and Defendant Sanofi's Apidra, with similar profiles. Diabetics use these rapid-acting insulins in combination with longer-acting insulins, such as Sanofi's Lantus and Novo Nordisk's Levemir.

253. Manufacturer Defendants introduced these rapid-acting and long-acting analog insulins between 1996 and 2007.

254. In 2015, Sanofi introduced Toujeo, another long-acting insulin also similar to Lantus, however Toujeo is highly concentrated, making injection volume smaller than Lantus.

255. In 2016, Eli Lilly introduced Basaglar, which is a long-acting insulin that is biologically similar to Sanofi's Lantus.

256. Even though insulin was first extracted nearly one hundred (100) years ago, only Defendants Eli Lilly, Novo Nordisk, and Sanofi manufacture insulin in the United States.

257. Many of the at-issue diabetes medications are now off patent. However, due in large part to their ability to stifle all competition, Manufacturer Defendants make 99% of the insulins in the market today.

### 3. Current diabetes medication landscape

258. While insulin today is generally safer and more convenient to use than when originally developed in 1922, there remain questions whether the overall efficacy of insulin has significantly improved over the last twenty (20) years.

259. For example, while long-acting analogs may have certain advantages over human insulins, such as affording more flexibility around mealtime planning, it has yet to be shown that analogs lead to better long-term outcomes.

260. A recent study published in the Journal of American Medical Association suggests that older human insulins may work just as well as newer analog insulins for patients with Type 2 diabetes.

261. When discussing the latest iterations of insulins, Harvard Medical School professor David Nathan recently stated:

I don't think it takes a cynic such as myself to see most of these [insulins] are being developed to preserve patent protection. The truth is they are marginally different, and the clinical benefits of them over the older drugs have been zero.

262. Moreover, all of the insulins at issue in this case have either been available in the same form since the late 1990s/early 2000s or are biologically equivalent to insulins that were available then.

263. Dr. Kasia Lipska, a Yale researcher and author of a 2018 study in the Journal of the American Medical Association on the cost of insulin, explained:

We're not even talking about rising prices for better products here. I want to make it clear that we're talking about rising prices for the same product . . . there's nothing that's changed about Humalog. It's the same insulin that's just gone up in price and now costs ten times more.

264. Nor have the production or research and development costs increased. In fact, in the last 10 years, the production costs of insulin have decreased as manufacturers simplified and optimized processes. A September 2018 study published in BMJ Global Health calculated that, based on production costs, a



reasonable price for a year's supply of human insulin is \$48 to \$71 per person and between \$78 and \$133 for analog insulins—which includes delivering a profit to manufacturers.

265. Another recent study noted anecdotal evidence that the Manufacturers could be *comfortably profitable charging under \$2 a vial*.

266. These figures stand in stark contrast to the \$5,705 that a diabetic spent, on average, for insulin in 2016. Indeed, Americans must sometimes travel to different countries entirely to acquire affordable insulin.

267. Further, while research and development costs often make up a large percentage of the price of a drug, in the case of insulin the initial basic research—original drug discovery and patient trials—was performed 100 years ago.

268. Even the more recent costs, such as developing the recombinant DNA fermentation process and the creation of insulin analogs, the Manufacturers incurred decades ago.

269. Today, Manufacturer Defendants only spend a fraction of the billions of dollars in revenue they generate from the at-issue drugs on research and development.

270. Despite this decrease in production costs and no new research and development, the reported price of the at-issue drugs has risen astronomically over the last 15 years.

4. Insulin adjuncts: Type 2 medications

271. Over the past fifteen years, Manufacturer Defendants have also released a number of non-insulin medications that have become critically important for millions of diabetics in their efforts to manage their disease.

272. In 2010, Novo Nordisk released Victoza as an adjunct to insulin to improve glycemic control. In 2014, Eli Lilly released a similar drug, Trulicity, Sanofi did the same with Soliqua in 2016, and, in 2017, Novo Nordisk did the same with Ozempic. Eli Lilly released Mounjaro in 2022.

273. Victoza, Trulicity, Ozempic, and Mounjaro are all medications known as glucagon-like peptide-1 receptor agonists (“GLP-1”) and are similar to the GLP-1 hormone that is already produced in the body. Soliqua is a combination long-acting insulin and GLP-1 drug. Each of these drugs can be used in conjunction with insulins to control diabetes.

274. Like insulins, the list prices that the Manufacturers set for their GLP-1 drugs are completely untethered from the extremely low costs to manufacture these drugs. For example, in March 2024 a study conducted by a team of researchers from Yale University, King's College Hospital in London, and Boston-based Harvard Medical School found that GLP-1s and other Type 2 diabetes medications, including those at-issue in this Petition, could be manufactured for between 89 cents and \$4.73 per month. Notably, these “cost-based” estimates both for GLP-1s and insulins are based on manufacturing costs plus a profit margin with an allowance for tax.

275. Despite the fact that the Manufacturers could profitably price their GLP-1 drugs at under \$5 a month, they nonetheless charge nearly \$1000 (or more) a month for these drugs.

276. Today, Manufacturer Defendants have a dominant position in the market for all diabetes medications. The following is a list of diabetes medications at issue in this lawsuit:

**Table 1: Diabetes medications at issue in this case**

<b>Insulin Type</b>	<b>Action</b>	<b>Name</b>	<b>Company</b>	<b>FDA Approval</b>
<b>Human</b>	<b>Rapid-Acting</b>	Humulin R	Eli Lilly	1982
		Humulin R 500	Eli Lilly	1994
		Novolin R	Novo Nordisk	1991
	<b>Intermediate</b>	Humulin N	Eli Lilly	1982
		Humulin 70/30	Eli Lilly	1989
		Novolin N	Novo Nordisk	1991
		Novolin 70/30	Novo Nordisk	1991
<b>Analog</b>	<b>Rapid-Acting</b>	Humalog	Eli Lilly	1996
		Novolog	Novo Nordisk	2000
		Apidra	Sanofi	2004
	<b>Long-Acting</b>	Lantus	Sanofi	2000
		Levemir	Novo Nordisk	2005
		Basaglar	Eli Lilly	2016
		Toujeo	Sanofi	2015
		Tresiba	Novo Nordisk	2015
<b>Type 2 Medications</b>		Trulicity	Eli Lilly	2014
		Mounjaro	Eli Lilly	2022
		Victoza	Novo Nordisk	2010
		Ozempic	Novo Nordisk	2017
		Xultophy	Novo Nordisk	2016
		Rybelsus	Novo Nordisk	2019
		Soliqua	Sanofi	2016
		Adlyxin	Sanofi	2016

## **B. The Dramatic Rise in the Price of Diabetes Medications**

### **1. Diabetes medication price increases**

277. In 2003, PBMs began their rise to power (which will be discussed in greater detail in the next section).

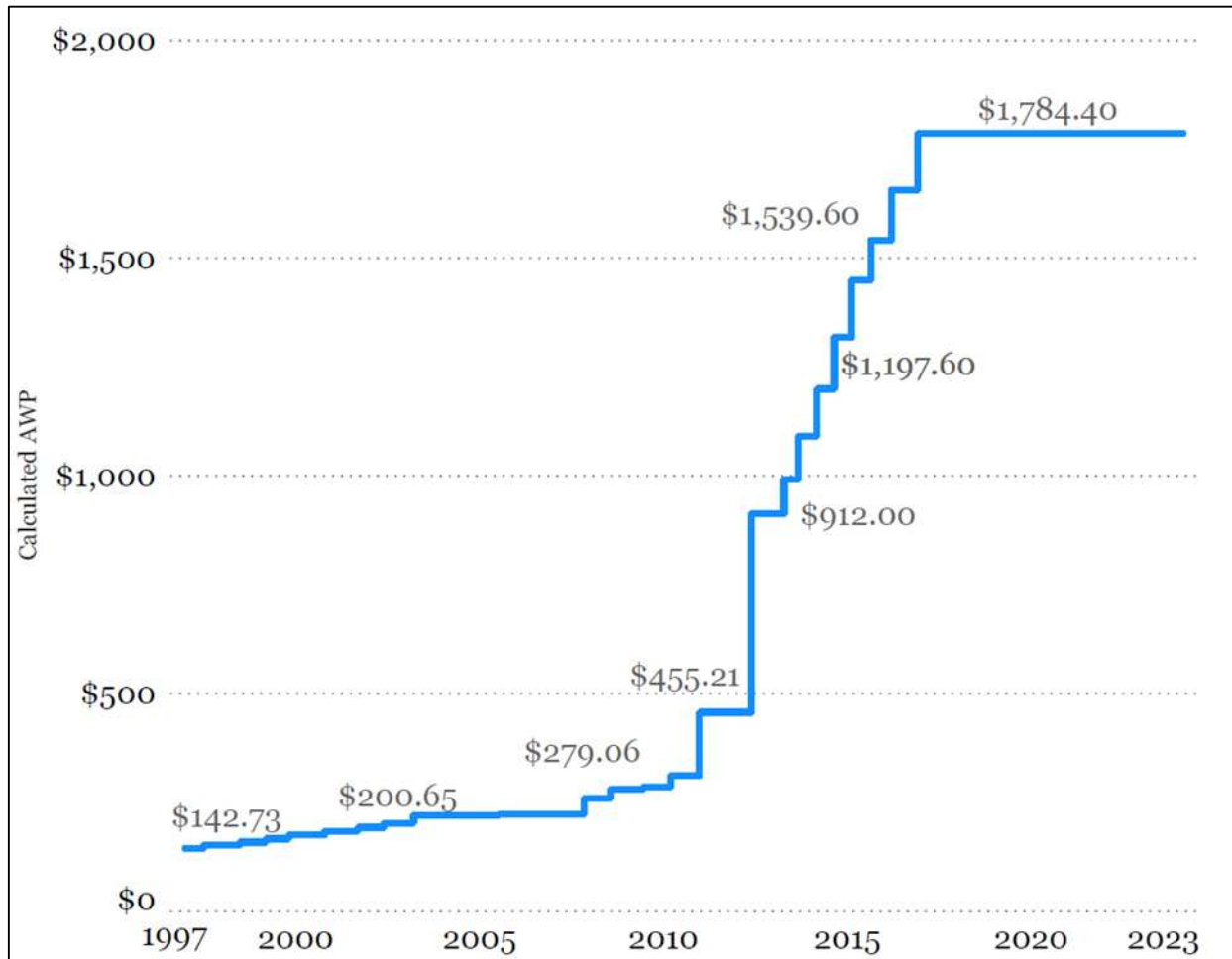
278. That same year, the price of diabetic treatments began its dramatic rise to its current exorbitant level.

279. Since 2003, the list price of certain insulins has increased in some cases by more than 1000%; an astounding increase especially when compared to a general inflation rate of 8.3% and a medical inflation rate of 46% in this time period.

280. By 2016, the average price per month of the four most popular types of insulin rose to \$450 — and costs continue to rise, so much so that now one in four diabetics are skimping on or skipping lifesaving doses. This behavior is dangerous to a diabetic's health and can lead to a variety of complications and even death.

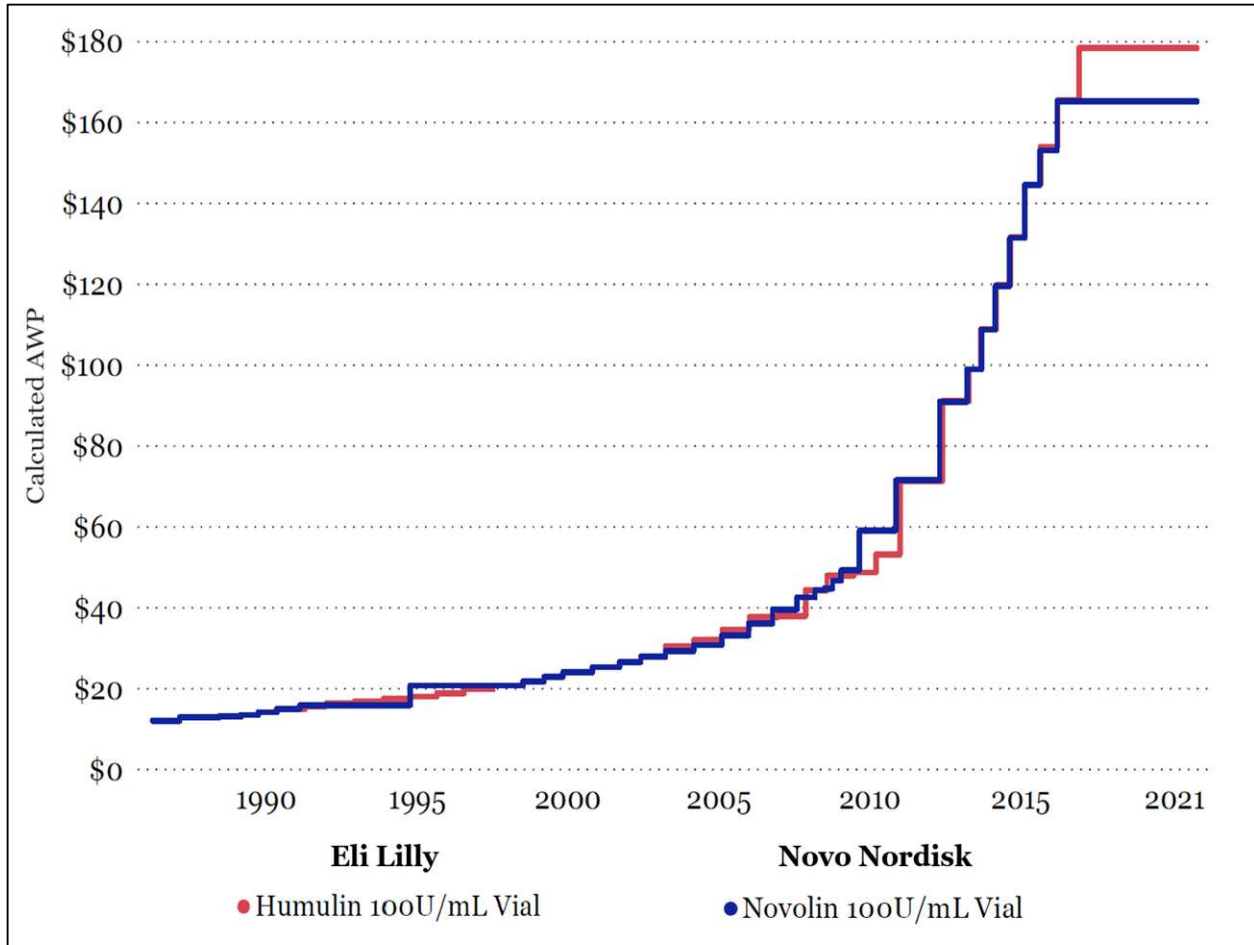
281. Since 1997, Defendant Eli Lilly has artificially inflated the list price of a vial of Humulin R (500U/ML) from \$165 to \$1784 (*See Figure 2*).

**Figure 2: Rising list prices of Humulin R (500U/mL) Vial  
1997 –2023**



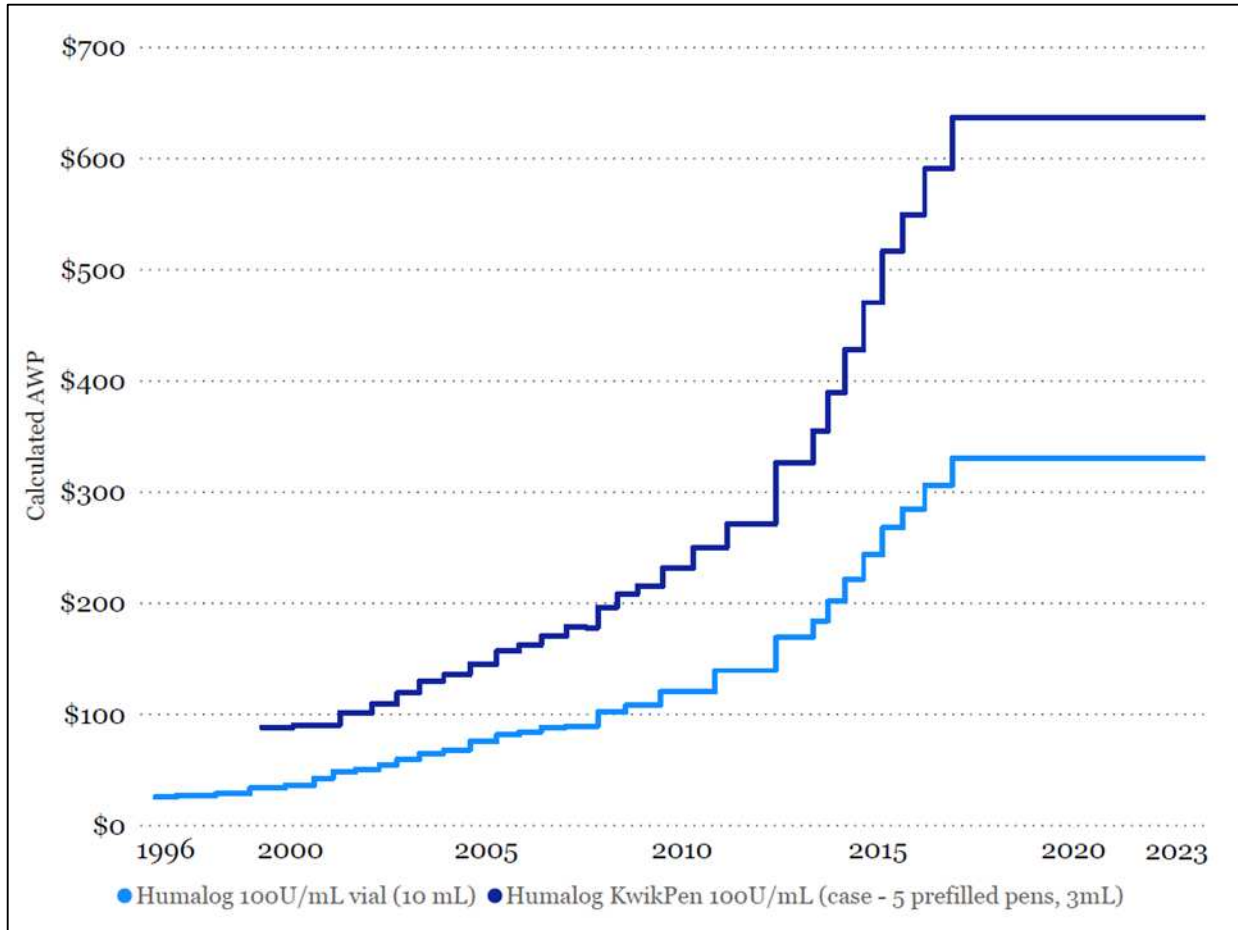
282. Since the early 2000s, both Eli Lilly and Novo Nordisk have substantially increased the prices for their human insulins, Humulin and Novolin.

**Figure 3: Rising list price increases for human insulins**



283. Since 1996, Defendant Eli Lilly has artificially inflated the list price for a package of pens of Humalog from less than \$100 to \$663 and from less than \$50 for a vial to \$342 (See Figure 4).

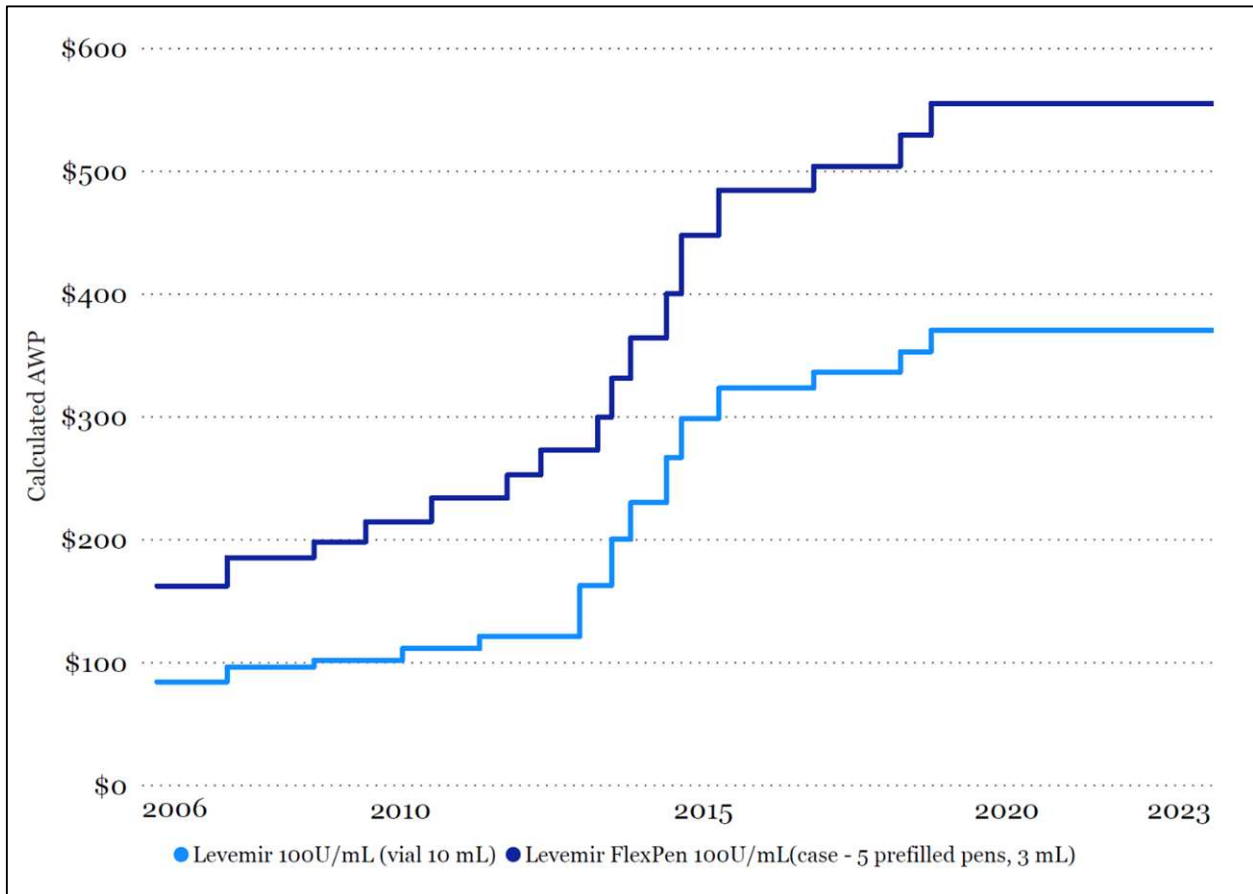
**Figure 4: Rising list prices of Humalog vials and pens  
1996 –2023**





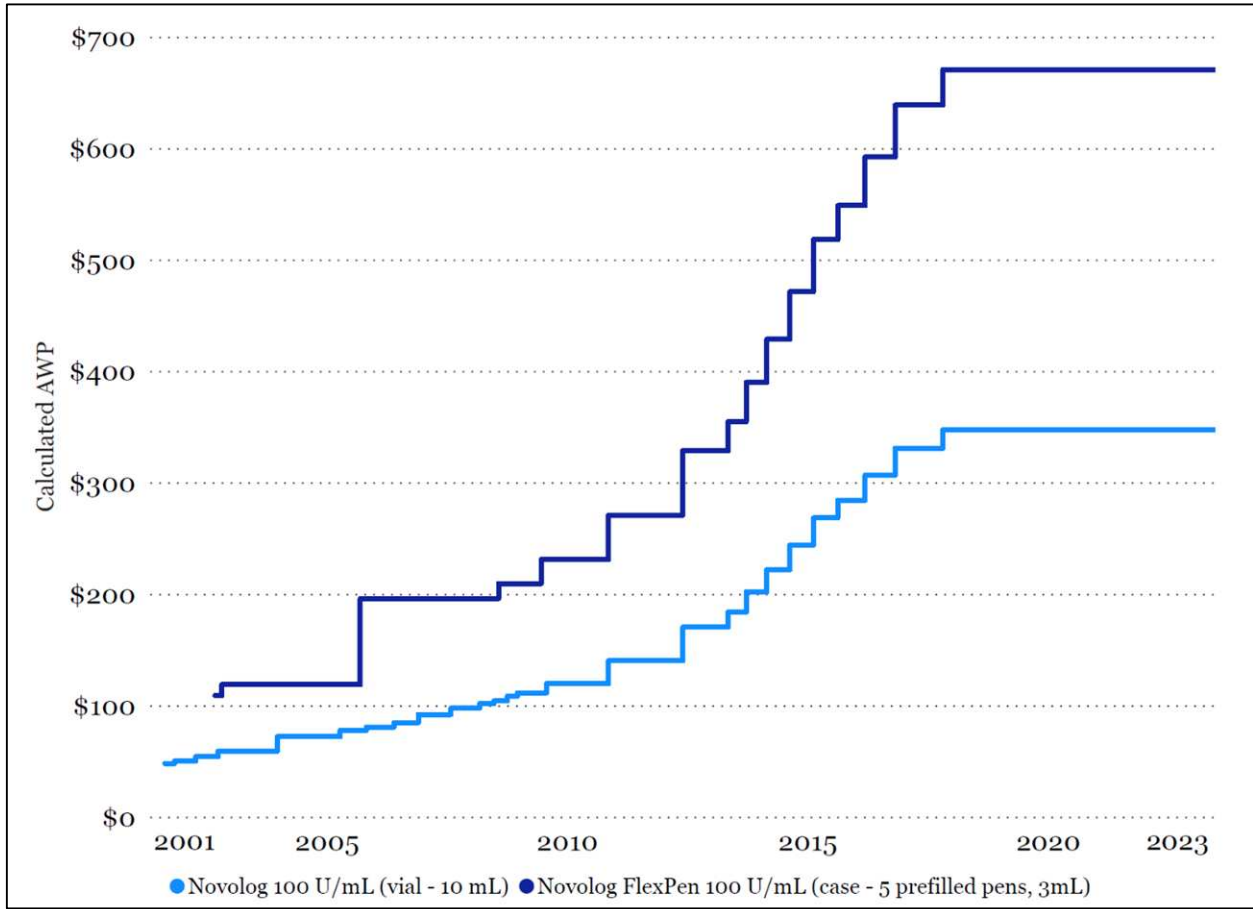
284. Novo Nordisk has also artificially inflated list prices. Since 2006, Levemir rose from \$162 to \$555 for pens and from under \$100 to \$370 per vial (See Figure 5).

**Figure 5: Rising list prices of Levemir  
2006 –2023**



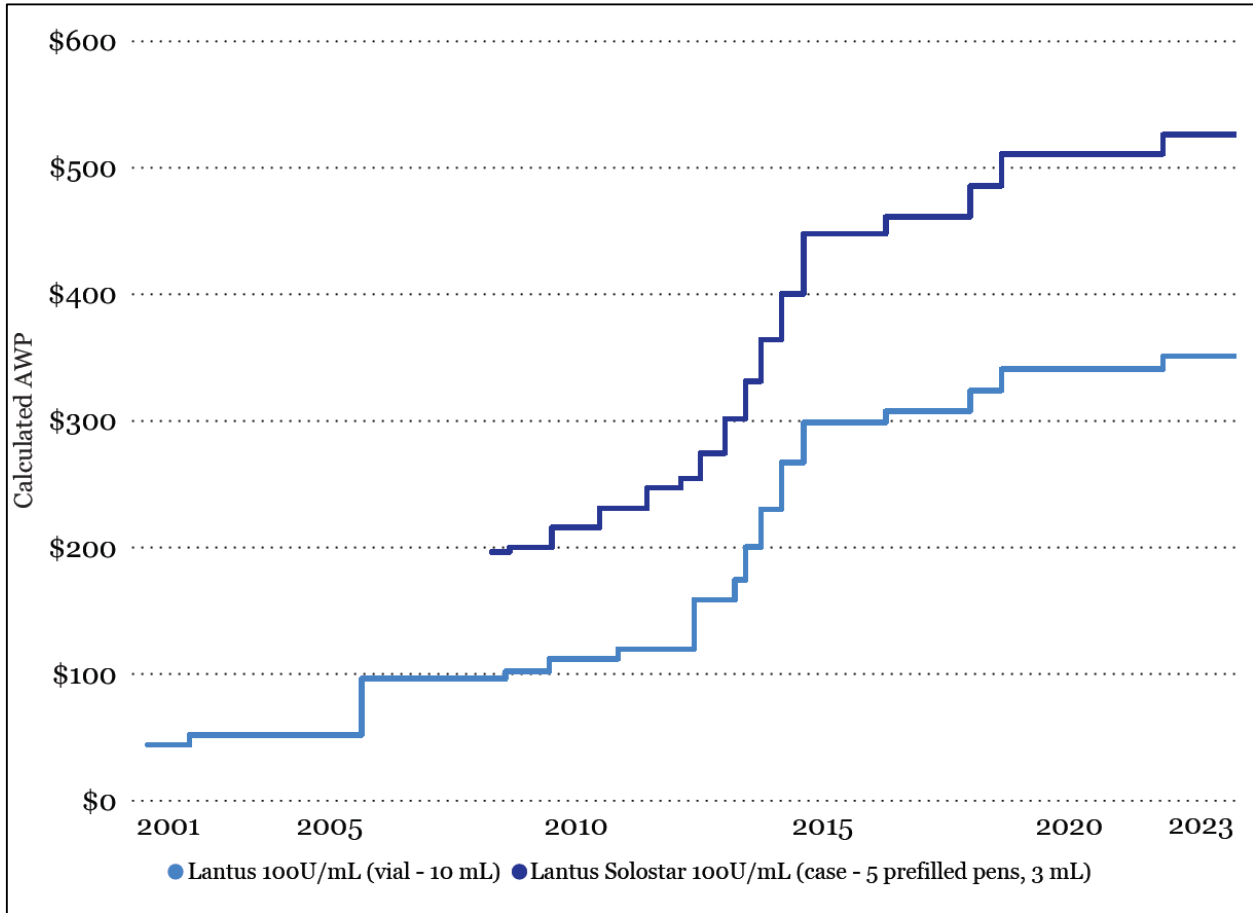
285. From 2002 to 2023., Novo Nordisk has artificially inflated the list price of Novolog from \$108 to \$671 for a package of pens and from less than \$50 to \$347 for a vial (See Figure 6).

**Figure 6: Rising list prices of Novolog vials and pens  
2001 –2023**



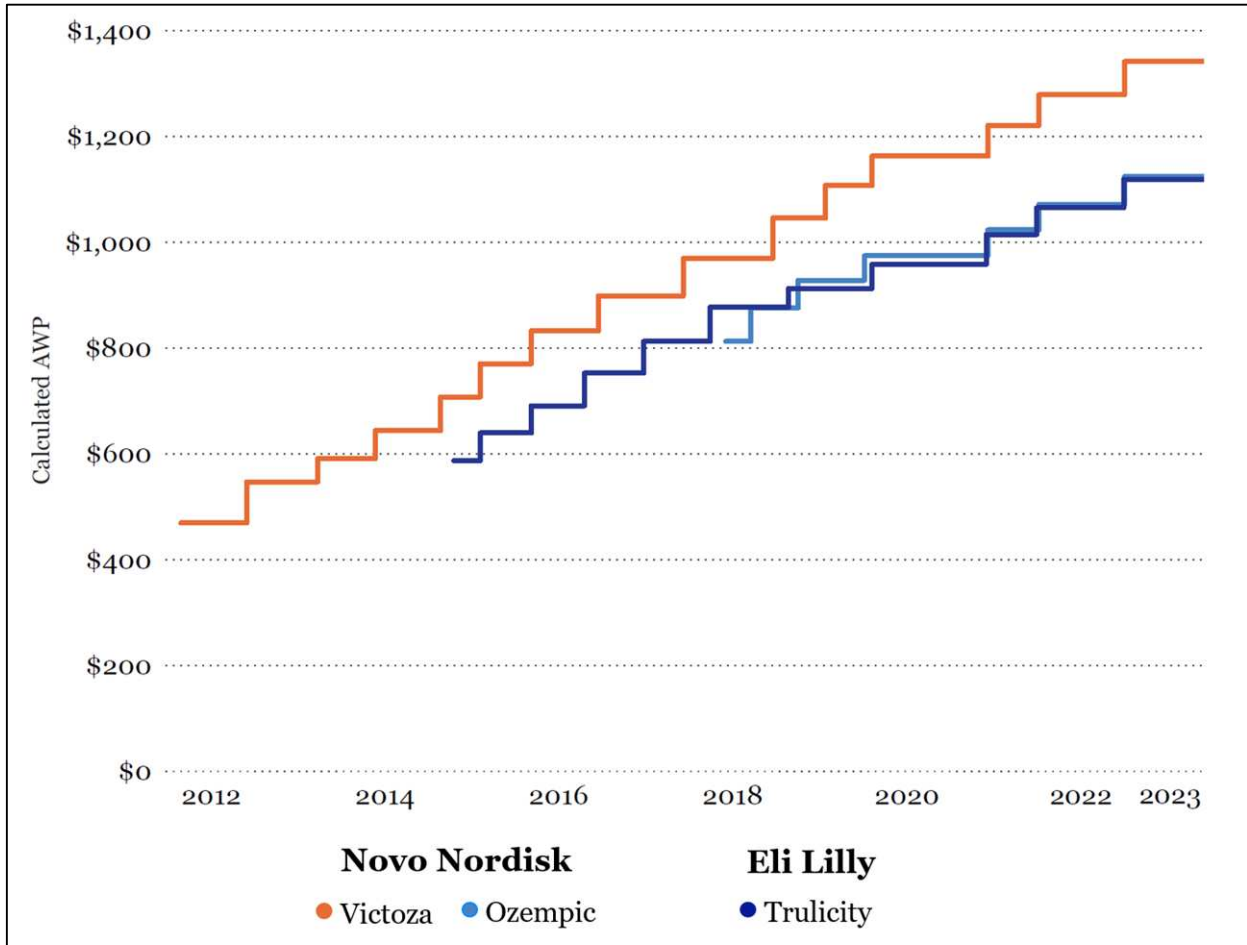
286. Defendant Sanofi has kept pace as well, artificially inflating the list price for Lantus, the top-selling analog insulin, from less than \$200 in 2006, to over \$500 in 2023 for a package of pens and from less than \$50 to \$340 for a vial (See Figure 6).

**Figure 7: Rising list prices of Lantus vials and pens  
2001 –2023**



287. Manufacturer Defendants’ non-insulin diabetes medications have experienced similar and exorbitant price increases. For example, since the release of their GLP-1 drugs, Eli Lilly and Novo Nordisk have more than tripled the prices of Victoza, Ozempic, and Trulicity.

**Figure 8: Rising list prices of Type 2 drugs**



288. Driven by these price hikes, payors’ and diabetics’ spending on diabetes medications has skyrocketed with totals in the tens of billions of dollars.

289. Because of Manufacturer Defendants’ price increases, nearly a century after the discovery of insulin, diabetes medications have become unaffordable for many diabetics.

### **C. Pharmaceutical Payment and Supply Chain**

290. The prescription drug industry consists of a deliberately opaque network of entities engaged in multiple distribution and payment structures. These entities

include drug manufacturers, wholesalers, pharmacies, health plans/third party payors, pharmacy benefit managers, and patients.

291. Generally speaking, branded prescription drugs, such as the at-issue diabetes medications, are distributed in one of two ways: (1) from manufacturer to wholesaler, wholesaler to pharmacy and pharmacy to patient; or (2) from manufacturer to mail order pharmacy to patient.

292. The pharmaceutical industry, however, is unique in that the pricing chain is distinct from the distribution chain. The prices for the drugs distributed in the pharmaceutical chain are different for each participating entity: different actors pay different prices set by different entities for the same drugs. The unifying factor is that the price that almost every entity in the pharmaceutical chain pays for a drug is directly tied to manufacturer's list price.

293. The PBMs ensure there is no transparency in this pricing system and that all of their clients' and patients' payments are tied to the "list prices," typically wholesale acquisition cost ("WAC"), or average wholesale price ("AWP").

294. Manufacturers set the WAC price. Even though the WAC name implies that it is the price that wholesalers pay for drugs, that is not true in practice. After chargebacks and other discounts, wholesalers pay substantially less than the WAC price.

295. Drug manufacturers self-report list prices to publishing compendiums such as First DataBank, Redbook and others who then publish the prices.

296. AWP prices are either set by the manufacturer and then reported to publishing compendiums or are calculated by the publishing compendium based on the WAC price and then published. AWP prices are set at generally 20% greater than WAC.

297. PBMs use AWP prices to set the amount that their payor clients pay for prescription drugs.

298. Notwithstanding their knowledge that list prices are disconnected from actual transaction costs, the PBM Defendants insist that their clients make payments for the at-issue drugs based on list prices. Even while PBM Defendants have more accurate pricing available, they persist in requiring AWP to be used by payors and patients.

299. As a direct result of Defendants' conduct, their misleading, false, and deceptive list prices persist as the most commonly and continuously used prices in reimbursement and payment calculations and negotiations for all payors.

300. Notably, the Manufacturer Defendants are not required to report or publish only WAC and/or AWP list prices. Nothing prevents them from publishing their net prices or other actual prices, but they choose not to in furtherance of the Scheme.

301. Moreover, the PBM Defendants are not required to use list prices to set the prices paid by their clients.

302. Rather, the PBM Defendants continue to perpetuate the use of list prices as the backbone of their contracts with their clients because it opens the door to

unchecked profitability—through Manufacturer Payments and pharmacy spread pricing (discussed in detail below).

1. Drug Costs for Diabetics

303. Whether insured or not, all Texas diabetics pay a substantial part of their diabetic drug costs based on the false list prices generated by the Insulin Pricing Scheme.

304. Uninsured diabetics must pay the full, point-of-sale prices (based on the artificially prices generated by the Insulin Pricing Scheme) every time they fill their prescriptions. In Texas, nearly 17% of the population—or 5.1 million Texas residents are uninsured. Approximately 18% of uninsured Texas residents are diabetic. As a direct result of the Insulin Pricing Scheme, the prices uninsured Texas residents with diabetes pay for the at-issue life-sustaining drugs has skyrocketed over the last fifteen years.

305. The uninsured are not the only patients saddled with high costs. Insured diabetics also often pay a significant portion of a drug's price out-of-pocket including in deductibles, coinsurance requirements, and/or copayment requirements based on the artificially inflated list prices generated by the Insulin Pricing Scheme.

306. Thus, nearly all Texas diabetics have been damaged by having to pay for diabetes medications out-of-pocket based upon the specific artificially inflated prices generated by the Insulin Pricing Scheme. In many cases, Texas diabetics have been priced out of these life-sustaining drugs.

307. In addition, these exorbitant indefensible out-of-pocket costs created by the Insulin Pricing Scheme make it more difficult for patients to adhere to their

medications, resulting in avoidable complications and higher overall healthcare costs. An American Diabetes Association working group recently noted that “people with high cost-sharing are less adherent to recommended dosing, which results in short- and long-term harm to their health.”

308. As executives from the PBM Defendants have explicitly recognized, lack of adherence drives up costs for Texas payors and the healthcare system.

309. On May 10, 2023, the Senate Health, Education, Labor, and Pensions (HELP) Committee held a hearing entitled “The Need to Make Insulin Affordable for All Americans” (“2023 Senate Hearing”) (discussed in greater detail below).

310. President of CVS Caremark, David Joyner stated in his opening statement at the 2023 Senate Hearing, “When people can afford their medications, like insulin, they are more likely to adhere to prescribed therapies. Adherence means better outcomes; better outcomes mean the health care system will spend far less on complications and hospitalizations.”

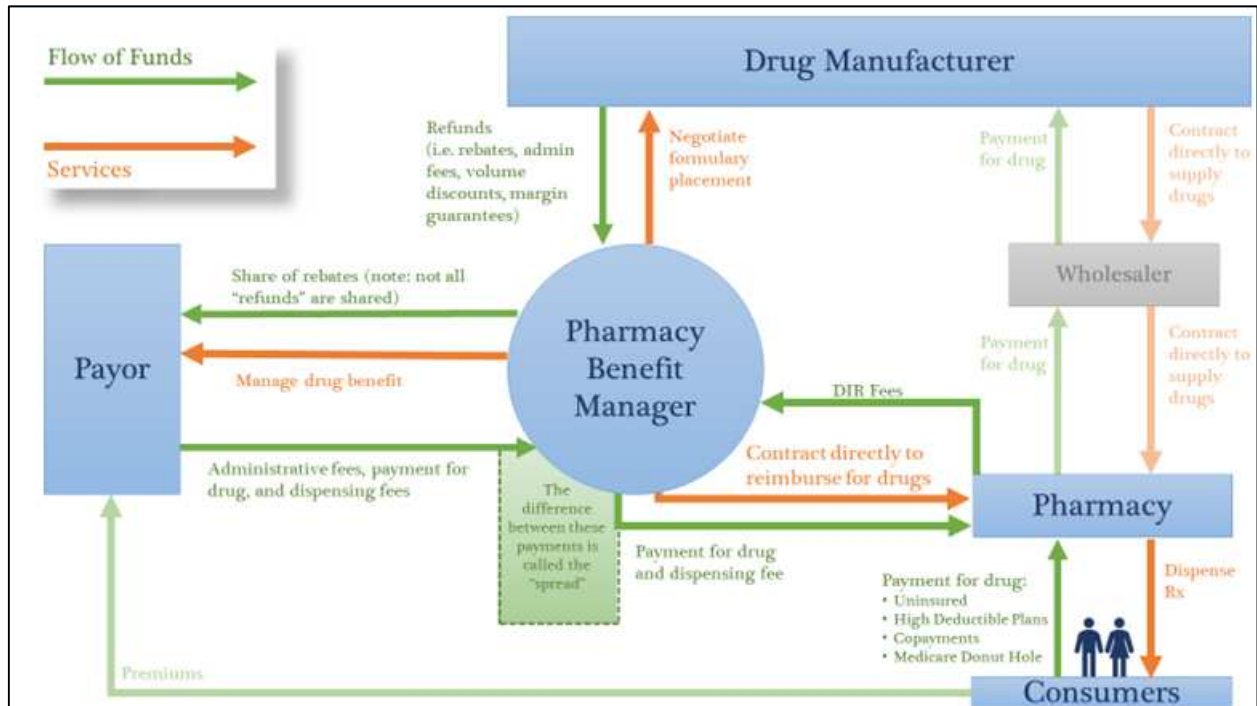
311. The overall economic impact from the loss of productivity and increased healthcare costs that result from diabetics underdosing their medications has been deeply damaging to the State.

2. PBMs’ role in the pharmaceutical payment chain

312. PBMs are at the center of the convoluted pharmaceutical payment chain, as illustrated in Figure 9:



**Figure 9: Diabetes drug distribution and payment chain**



313. The PBM Defendants develop drug formularies, process claims, create a network of retail pharmacies, set the prices in coordination with the Manufacturers that payors pay for prescription drugs and are paid by payors for the drugs utilized by a payor’s beneficiaries.

314. The PBM Defendants provide services to both payors and consumers by administering prescription drug benefits. As CVS Caremark explains to consumers through its welcome kit: “We manage your prescription drug benefits just like your health insurance company manages your medical benefits.”

315. The PBM Defendants have consumer-facing websites representing that they “serve” consumers and that consumers are their “members.”

316. The PBM Defendants further represent that giving consumers access to necessary prescription drugs at an affordable price is a top priority.

317. PBMs also contract with a network of retail pharmacies, including those pharmacies that are affiliated with the PBM. Pharmacies agree to dispense drugs to patients and pay fees back to the PBMs. PBMs reimburse pharmacies for the drugs dispensed.

318. PBM Defendants also own mail-order, retail and specialty pharmacies, which purchase and take possession of prescription drugs, including those at-issue here, and directly supply those drugs to patients.

319. Often times—including for the at-issue drugs—the PBM Defendants purchase drugs from the Manufacturers and dispense them to the patients.

320. Even where PBM Defendant's pharmacies purchase drugs from wholesalers, their costs are set by direct contracts with the Manufacturers.

321. In addition, and of particular significance here, PBM Defendants contract with pharmaceutical manufacturers, including Manufacturer Defendants.

322. These relationships allow PBMs to exert tremendous influence over what drugs are available throughout Texas and at what prices.

323. Thus, PBMs are at the center of the flow of money in the pharmaceutical supply chain. In sum:

- a. PBMs negotiate the price that payors pay for prescription drugs (for the at-issue drugs based on artificially inflated prices generated by the Insulin Pricing Scheme);
- b. they separately negotiate a different (and often lower) price that pharmacies in their networks receive for that same drug;
- c. they set the amount in fees that the pharmacy pays back to the PBM for each drug sold (for the at-issue drugs based on artificially inflated prices generated by the Insulin Pricing Scheme);

- d. they set the price paid for each drug sold through their mail order and retail pharmacies (for the at-issue drugs based on artificially inflated prices generated by the Insulin Pricing Scheme); and
- e. they determine the amount of Manufacturer Payments that the Manufacturers pay back to the PBM for each drug sold (for the at-issue drugs based on artificially inflated prices generated by the Insulin Pricing Scheme).

324. Yet, for the majority of these transactions, only the PBMs are privy to the amount that any other entity in this pricing chain is paying or receiving for the exact same drugs.

325. In every interaction that PBMs have within the pharmaceutical pricing chain they stand to profit from the artificial prices generated by the Insulin Pricing Scheme.

### 3. The rise of the PBMs in the pharmaceutical supply chain

326. When they first came into existence in the 1960s, PBMs functioned largely as claims processors. Over time, however, they have taken on a larger and larger role in the pharmaceutical industry. Today, PBMs wield significant control over the drug pricing system.

327. One of the roles PBMs took on was negotiating with drug manufacturers ostensibly on behalf of payors.

328. In the early 2000s, PBMs started buying pharmacies.

329. When a PBM combines with a pharmacy, it has increased incentive to collude with Manufacturers to keep certain prices high.

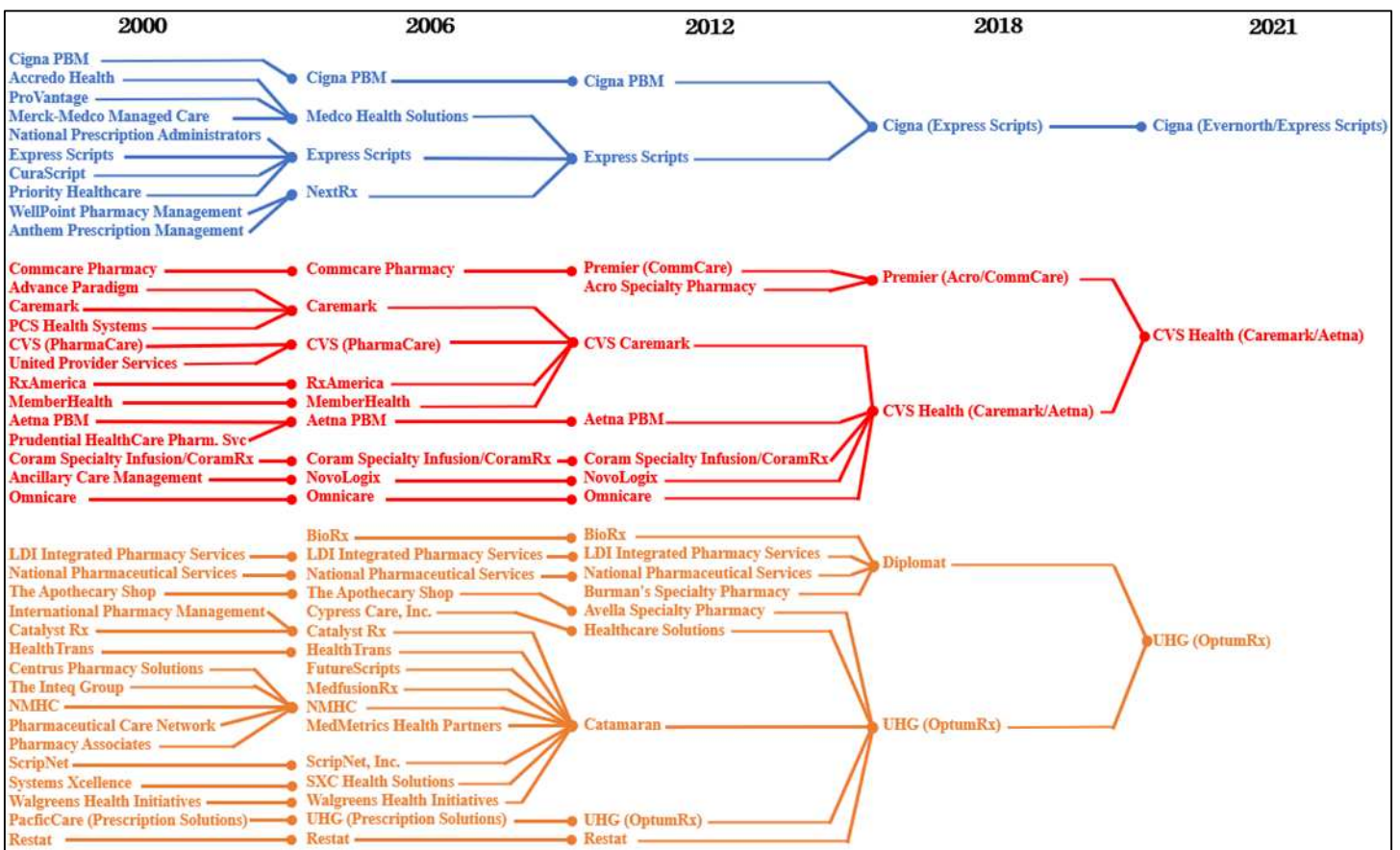
330. These perverse incentives still exist today with respect to both retail and mail order pharmacies housed within the PBMs' corporate families, such as CVS Pharmacy.

331. More recently, further consolidation in the industry has afforded PBMs a disproportionate amount of market power.

332. In total, nearly 40 different PBM entities have merged or otherwise been absorbed into what are now the PBM Defendants.

333. Figure 10 depicts this consolidation within the PBM market.

**Figure 10: PBM consolidation**



334. After merging or acquiring all their competitors and now backed by multi-billion-dollar corporations, PBM Defendants have taken over the market in the

past decade—controlling over 80% of the market and managing pharmacy benefits for over 270 million Americans.

335. Importantly, PBM Defendants have near *complete* control over the Manufacturer Payment market, given that in addition to their own clients (which represent 80% of the market), most smaller pharmacy benefit managers—including the largest pharmacy benefit manager in the United States outside the PBM Defendants, Prime Therapeutics—contract with the PBM Defendants (or their controlled affiliate rebate aggregator companies) to negotiate Manufacturer Payments on their behalf.

336. Business is booming for PBM Defendants. Together, they report more than \$300 billion in annual revenue.

337. PBMs are able to use the consolidation in the market as leverage when negotiating with other entities in the pharmaceutical pricing chain. Last year, industry expert Lindsay Bealor Greenleaf from the Advice and Vision for the Healthcare Ecosystem (ADVI) consulting firm described this imbalance in power, “it’s really difficult to engage in any type of fair negotiations when one of the parties has that kind of monopoly power . . . I think that is something that is going to continue getting attention, especially as we see more of these payors and PBMs continue to try to further consolidate.”

#### 4. Insular nature of the pharmaceutical industry

338. The insular nature of the PBM and pharmaceutical industry has provided PBM Defendants with ample opportunity for contact and communication

amongst themselves, as well as with Manufacturer Defendants, in order to devise and agree to the Insulin Pricing Scheme.

339. Each Manufacturer Defendant is a member of the Pharmaceutical Research and Manufacturers of America (“PhRMA”) and has routinely communicated through PhRMA’s meetings and platforms in furtherance of the Insulin Pricing Scheme.

340. David Ricks, CEO of Eli Lilly, Paul Hudson, CEO of Sanofi and Douglas Langa, Executive Vice President of Novo Nordisk, are all members of the PhRMA board of directors and/or PhRMA executive leadership team.

341. PBM Defendants also routinely communicate through direct interaction with their competitors and the Manufacturers at PBM trade associations and industry conferences.

342. Each year during the relevant time period, the main PBM trade association, the Pharmaceutical Care Management Association (“PCMA”), held several yearly conferences, including its Annual Meeting and its Business Forum conferences.

343. The current board of the PCMA includes: David Joyner (chairman), Executive Vice President and President, Pharmacy Services, at CVS Health Corp.; Dr. Patrick Conway, CEO of OptumRx; and Adam Kautzner, President of Express Scripts. Past board members include: Heather Cianfrocco, CEO of OptumRx; John Prince, President and COO of Optum, Inc. and former CEO of OptumRx; Jon Roberts, Executive Vice President and COO of CVS Health Corp.; Amy Bricker, Chief Product

Officer of CVS Health Corp. (and former President of Express Scripts); Alan Lotvin, Executive Vice President of CVS Health Corp. and President of CVS Caremark; and Tim Wentworth, CEO of Evernorth and Express Scripts.

344. All PBM Defendants are members of and, as a result of their leadership positions, control the PCMA. Each Manufacturer Defendant is an affiliate member of this organization.

345. The PCMA annual conferences appear to be at the center of the Insulin Pricing Scheme.

346. Every year, high-level representatives and corporate officers from both PBM and Manufacturer Defendants attend these conferences to meet in person to discuss their shared business opportunities within the pharmaceutical industry. Defendants also have used these conferences to engage in private meetings in furtherance of the Insulin Pricing Scheme.

347. In fact, for at least the last six years, all of the Manufacturer Defendants have been “Presidential Sponsors” of these PBM conferences.

348. Notably, many of the forums at these conferences are specifically advertised as offering opportunities for private, non-public communications. For example, as Presidential Sponsors of these conferences, Manufacturer Defendants each hosted “private meeting rooms” that offer “excellent opportunities for . . . one-on-one interactions between PBM and pharma executives.”

349. Representatives from each Manufacturer Defendant regularly meet privately with representatives from each PBM Defendant during both the Annual Meetings and Business Forum conferences that the PCMA holds each year.

350. Prior to these meetings dedicated teams of executives from each Defendant spend weeks preparing PCMA “pre-reads” and reports in preparation for these meetings. These reports not only demonstrate the deep involvement of each Defendant in the Insulin Pricing Scheme, but they also reflect the tangled web that gave rise to the Scheme.

351. In addition, all PCMA members, affiliates and registered attendees of these conferences are invited to join PCMA-Connect, “an invitation-only LinkedIn Group and online networking community.” As PCMA members, PCMA-Connect provides PBM and Manufacturer Defendants with a year-round, non-public online forum to engage in private discussions in furtherance of the Insulin Pricing Scheme.

352. Further, the PBMs control the PCMA and have weaponized it to further their interests and to conceal the Insulin Pricing Scheme. The PCMA has brought numerous lawsuits and lobbying campaigns aimed at blocking drug pricing transparency efforts, including recently suing the Department of Health and Human Services (HHS) to block the finalized HHS “rebate rule,” which would eliminate anti-kickback safe harbors for Manufacturer Payments and instead offer them to direct-to-consumer discounts.



#### **D. The Insulin Pricing Scheme**

353. Given the PBMs' size and role in the pharmaceutical market, the PBM Defendants should have great leverage in negotiating with the Manufacturer Defendants to drive prices down and increase access to affordable medications.

354. But the PBMs do not want the prices for diabetes medications to go down because they make more money on higher prices. So do the Manufacturers.

355. As a result, Defendants have found a way to game the system for their mutual benefit—the Insulin Pricing Scheme.

356. PBM Defendants' formularies are at the center of the Insulin Pricing Scheme. Given the asymmetry of information and disparity in market power between payors and PBM Defendants and the costs associated with making formulary changes, most payors accept the standard formularies offered by the PBMs.

357. Manufacturer Defendants recognize that because PBM Defendants have such a dominant market share, if they chose to exclude a particular diabetes medication from their standard formularies, or give it a non-preferred position, it could mean billions of dollars in profit loss for Manufacturer Defendants.

358. For example, Olivier Brandicourt, Sanofi's Chief Executive Officer, in a recent interview stressed the importance of the PBMs' standard formularies: "if you look at the way [CVS Caremark] is organized in the U.S . . . 15 million [lives] are part of [CVS Caremark's standard] formulary and that's very strict, all right. So, [if we were not included in CVS Caremark's standard formulary] we wouldn't have access to those 15 million lives."

359. Manufacturer Defendants also recognize that the PBM Defendants' profits are directly tied to the Manufacturers' list prices. For example, the January 2021 Senate Insulin Report noted this in summarizing the internal documents produced by the Manufacturers:

[B]oth Eli Lilly and Novo Nordisk executives, when considering lower list prices, were sensitive to the fact that PBMs largely make their money on rebates and fees that are based on a percentage of a drug's list price . . . In other words, the drug makers were aware that higher list prices meant higher revenue for PBMs.

360. The documents released by the Senate contemporaneously with the January 2021 Senate Insulin Report further corroborate the degree to which the Manufacturers' pricing strategy is focused on the PBMs' profitability. In an internal August 6, 2015 email, Novo Nordisk executives debated delaying increasing the price of an at-issue drug in order to make the increase more profitable for CVS Caremark, stating:

Should we take 8/18 [for a price increase], as agreed to by our [pricing committee], or do we recommend pushing back due to the recent CVS concerns on how we take price? . . . We know CVS has stated their disappointment with our price increase strategy (ie taking just after the 45th day) and how it essentially results in a lower price protection, admin fee and rebate payment for that quarter/time after our increase . . . it has been costing CVS a good amount of money.

361. Because the Manufacturer Defendants know that—contrary to their public representations—PBM Defendants make more money from *higher* prices, over the course of the last fifteen years and working in coordination with the PBMs, the Manufacturers have artificially inflated their list prices for the at-issue drugs

exponentially, while maintaining their net prices, by paying larger and larger amounts of Manufacturer Payments back to the PBMs.

362. Starting in 2011, the PBMs began constructing and implementing exclusionary formularies which accelerated the diabetic drug price increases.

363. As a result, during the last fifteen years the amount of Manufacturer Payments paid to the PBMs has increased substantially. For example, the January 2021 Senate Insulin Report found that:

In July 2013, Sanofi offered rebates between 2% and 4% for preferred placement on CVS Caremark's commercial formulary. Five years later, in 2018, Sanofi rebates were as high as 56% for preferred formulary placement. Similarly, rebates to Express Scripts and OptumRx increased dramatically between 2013 and 2019 for long-acting insulins. For example, in 2019, Sanofi offered OptumRx rebates up to 79.75% for Lantus for preferred formulary placement on their client's commercial formulary, compared to just 42% in 2015. Similarly, Novo Nordisk offered Express Scripts rebates up to 47% for Levemir for preferred formulary placement on their client's commercial formulary, compared to 25% in 2014.

364. Beyond increased rebate demands, the PBMs have also requested and received larger and larger administrative fee payments from the Manufacturers during the relevant time period. A recent study by the Pew Charitable Trust estimated that, between 2012 and 2016, the amount of administrative and other fees that the PBMs requested and received from the Manufacturers tripled, reaching more than \$16 billion.

365. The value of these rebates and administrative fees to the PBMs was highlighted during a May 10, 2023 Congressional Hearing before the Senate Health, Education, Labor, and Pensions (HELP) Committee where Defendants testified

entitled “The Need to Make Insulin Affordable for All Americans” (“2023 Senate Hearing”).

366. During the 2023 Senate Hearing the executives from the Manufacturer Defendants testified that \$0.75 to \$0.84 of every dollar spent on the list price of insulin goes directly to PBMs and their affiliated rebate aggregators—despite the rising out-of-pocket costs to diabetics.

367. In exchange for the Manufacturer Defendants inflating these prices and paying the PBMs substantial amounts in Manufacturer Payments, PBM Defendants grant Manufacturer Defendants’ diabetes medications with the most elevated price and that are the most profitable to the PBMs preferred status on their standard formularies.

368. At all times relevant hereto the PBM Defendants have known that the list prices for the at-issue drugs are grossly inflated. Indeed, the Manufacturers’ list prices have become so untethered from the Manufacturers’ net prices<sup>12</sup> as to constitute false and unlawful prices.

369. Despite this knowledge, PBMs include this false price—often the AWP price—in their contracts as a basis to set the rate that payors pay for the at-issue drugs and pharmacies are reimbursed for the at-issue drugs.

370. Moreover, the PBMs also use this false price to misrepresent the amount of “savings” they generate for diabetics, payors and the healthcare system. For example, in January 2016, Express Scripts’ president Tim Wentworth stated at the

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<sup>12</sup> “Net Price” refers to the Manufacturers’ list price minus all Manufacturer Payments paid to the PBMs.

34<sup>th</sup> annual JP Morgan Healthcare Conference that Express Scripts “saved our clients more than \$3 billion through the Express Scripts National Preferred Formulary.” Likewise, in April 2019, CVS Caremark President and Executive Vice President of CVS Health Corp. Derica Rice stated, “Over the last three years . . . CVS Caremark has helped our clients save more than \$141 billion by blunting drug price inflation, prioritizing the use of effective, lower-cost drugs and reducing the member’s out-of-pocket spend.”

371. The PBM Defendants also misrepresent the amount of “savings” they generate to their payor clients and prospective clients.

372. In making these representations, the PBMs fail to disclose that the amount of “savings” they have generated is calculated based on the false list prices, which are not paid by any entity in the pharmaceutical pricing chain and which the PBMs are directly responsible for artificially inflating.

373. The PBM Defendants are not only favoring higher list price/higher Manufacturer Payment drugs on their formularies, but they also are excluding (or disadvantaging) lower priced diabetes drugs from their formularies. And because the PBM Defendants control 80% of the market, that means the PBM Defendants are cutting off access to affordable diabetic treatments for 80% of the diabetics and payors in Texas.

374. One example of this was discussed at the 2023 Senate Hearing, where Senator Susan Collins detailed how the drug manufacturer Viatris released an Insulin Glargine product (Semglee) at a 65% lower list price to Lantus but was nonetheless

excluded from the PBM Defendants' formularies. Several years later, Viatrix rereleased the exact same product, this time at a much higher list price (only 5% lower than Lantus); this time, the PBM Defendants allowed Semglee onto many of their formularies.

375. In addition, the global strategic consulting company, Xcenda, put out a report in May 2022 titled "Skyrocketing growth in PBM formulary exclusions continues to raise concerns about patient access" that found:

Exclusions, potentially driven in part by misaligned [PBM Defendant] incentives, have had an extensive impact on patients' access to insulin over the study period. Lower list-priced insulins have been available since 2016—including follow-on insulins, "authorized generic" insulins, and, more recently, biosimilar insulins. However, [the PBM Defendants] often exclude these insulins from their formularies in favor of products with higher list prices and larger rebates. For example, 2 of the 3 [PBM Defendants] have excluded the 2 insulin authorized generics from their formulary exclusion lists since 2020, instead favoring the higher list-priced equivalents. Remarkably, this was true even though the list prices for these authorized generic insulins can be half the list price of the brand. In addition to the exclusions of authorized generic insulins, lower list-priced biosimilar insulins have also faced formulary exclusions. The first biosimilar insulin was launched in 2021. Due to prevailing market dynamics, 2 identical versions of the product were simultaneously introduced—one with a higher list price and large rebates and one with a lower list price and limited rebates—giving payers the option of which to cover. All 3 PBMs excluded the lower-list priced version in 2022, instead choosing to include the identical product with a higher list price.

376. Further, in July 2024 the Federal Trade Commission released its Interim Staff Report related to its investigation of the PBM Defendants titled, "Pharmacy Benefit Managers: The Powerful Middlemen Inflating Drug Costs and Squeezing Main Street Pharmacies" ("FTC Interim PBM Report"). In the Report, the FTC shared "evidence that [the PBM Defendants] and brand pharmaceutical manufacturers

sometimes enter agreements to exclude generic drugs and biosimilars from certain formularies in exchange for higher rebates from the manufacturers.”

377. Importantly, the Insulin Pricing Scheme is a coordinated effort between the Manufacturer and PBM Defendants, that each agreed to and participated in and that created enormous profits for all Defendants. For example:

- a. Manufacturers and PBMs are in constant communication and regularly meet and exchange information to construct and refine the PBM formularies that fuel the Scheme. As part of these communications, the Manufacturers are directly involved in determining not only where their own diabetes medications are placed on the PBMs’ formularies and with what restrictions, but also determining the same for competing products;
- b. Manufacturers and PBMs share confidential and proprietary information with each other in furtherance of the Insulin Pricing Scheme, such as market data gleaned from the PBMs’ drug utilization tracking efforts and pharmacy claims (retail and mail-order), internal medical efficacy studies and financial data. Defendants then use this information in coordination to set the false prices for the at-issue medications and construct their formularies in the manner that is most profitable for both sets of Defendants. The data that is used to further this coordinated scheme is compiled, analyzed and shared either by departments directly housed within the PBM or by subsidiaries of the PBM, as is the case with OptumRx which utilizes OptumInsight; and
- c. Manufacturers and PBMs engage in coordinated outreach programs directly to patients, pharmacies and prescribing physicians to convince them to switch to the at-issue diabetes medications that are more profitable for the PBMs and Manufacturers, even drafting and editing letters in tandem to send out to diabetes patients on behalf of the PBMs’ clients. For example, the January 2021 Senate Insulin Report released an email where Eli Lilly discussed paying Defendant UnitedHealth Group and OptumRx additional rebates for every client that was converted to formularies that exclusively preferred Eli Lilly’s at-issue drugs, including Humalog. The email continued: “United’s leadership committee made one ask of Lilly – that we are

highly engaged in the communication/pull through plan.<sup>13</sup> I of course indicated we fully expect to support this massive patient transition [to Eli Lilly's at-issue drugs favored by United] and provider education with the full breadth of Lilly resources. UHC also proactively thanked Lilly for our responsiveness, solution generation and DBU execution.”

378. Far from using their prodigious bargaining power to lower drug prices as they claim, Defendants use their dominant positions to work together to generate billions of dollars at the expense of Texas diabetics and payors.

#### **E. Defendants' Congressional Testimony**

379. On April 10, 2019, the United States House of Representatives Committee on Energy and Commerce held a hearing on Defendants' Insulin Pricing Scheme titled, “Priced Out of a Lifesaving Drug: Getting Answers on the Rising Cost of Insulin.”

380. Representatives from all Defendants testified at the hearing and each acknowledged before Congress that the price for insulin has increased exponentially in the past fifteen (15) years.

381. Representatives from each Defendant explicitly admitted that the price that diabetics have to pay out-of-pocket for insulin is too high. For example:

- a. Dr. Sumit Dutta, Chief Medical Officer of OptumRx stated, “A lack of meaningful competition allows the [M]anufacturers to set high [list] prices and continually increase them which is odd for a drug that is nearly 100 years old and which has seen no significant innovation in decades. These price increases have a real impact on consumers in the form of higher out-of-pocket costs.”

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<sup>13</sup> “Pull through” is an industry term that refers to an integrated process between PBMs and Manufacturers aimed at moving market share and increasing sales for a certain product following the PBM granting that product preferred placement on its formulary.



- b. Thomas Moriarty, Chief Policy and External Affairs Officer and General Counsel for CVS Health testified, “A real barrier in our country to achieving good health is cost, including the price of insulin products which are too expensive for too many Americans. Over the last several years, [list] prices for insulin have increased nearly 50 percent. And over the last ten years, [list] price of one product, Lantus, rose by 184 percent.”
- c. Mike Mason, Senior Vice President of Eli Lilly when discussing how much diabetics pay out-of-pocket for insulin stated “it’s difficult for me to hear anyone in the diabetes community worry about the cost of insulin. Too many people today don’t have affordable access to chronic medications . . .”
- d. Kathleen Tregoning, Executive Vice President External Affairs at Sanofi, testified, “Patients are rightfully angry about rising out-of-pocket costs and we all have a responsibility to address a system that is clearly failing too many people. . . we recognize the need to address the very real challenges of affordability . . . Since 2012, average out-of-pocket costs for Lantus have risen approximately 60 percent for patients . . .”
- e. Doug Langa, Executive Vice President of Novo Nordisk, stated, “On the issue of affordability . . . I will tell you that at Novo Nordisk we are accountable for the [list] prices of our medicines. We also know that [list] price matters to many, particularly those in high-deductible health plans and those that are uninsured.”

382. Notably, none of the testifying Defendants claimed that the significant increase in the price of insulin was related to competitive factors such as increased costs or improved clinical benefit.

383. None of the Defendants pointed to any other participant in the pharmaceutical pricing chain as responsible for the exorbitant price increases for these diabetes medications—nor could they—for these Defendants collectively are solely responsible for the price of almost every single vial of insulin sold in the United States.

384. At the April 2019 Congressional hearing, Novo Nordisk’s President, Doug Langa, explained Novo Nordisk’s and PBM Defendants’ role in perpetuating the “perverse incentives” of the Insulin Pricing Scheme:

[T]here is this perverse incentive and misaligned incentives (in the insulin pricing system) and this encouragement to keep [list] prices high. And *we’ve been participating in that system* because the higher the [list] price, the higher the rebate . . . There is a significant demand for rebates. We spend almost \$18 billion in rebates in 2018 . . . [I]f we eliminate all the rebates . . . we would be in jeopardy of losing [our formulary] positions. (Emphasis added).

385. Eli Lilly, too, has admitted that it raises list prices as a *quid pro quo* for formulary positions. At the April 2019 Congressional hearing, Mike Mason, Senior Vice President of Eli Lilly testified:

Seventy-five percent of our [list] price is paid for rebates and discounts to secure [formulary position] . . . \$210 of a vial of Humalog is paid for discounts and rebates. . . We have to provide rebates [to PBMs] in order to provide and compete for [formulary position].

386. Sanofi has also conceded its participation in the Insulin Pricing Scheme. When testifying at the April 2019 Congressional hearing, Kathleen Tregoning, Executive Vice President for External Affairs of Sanofi, testified:

The rebates are how the system has evolved. . . I think the system became complex and rebates generated through negotiations with PBMs are being used to finance other parts of the healthcare system and not to lower prices to the patient.

387. PBM Defendants also admitted at the April 2019 Congressional hearing that they grant preferred, or even exclusive, formulary position because of higher Manufacturer Payments paid by Manufacturer Defendants.

388. Amy Bricker, then President of Express Scripts, when asked to explain why Express Scripts did not grant an insulin with a lower list price preferred formulary status, answered, “Manufacturers do give higher [payments] for exclusive [formulary] position . . .”

389. While all Defendants acknowledged their participation in the Insulin Pricing Scheme before Congress, in an effort to avoid culpability each Defendant group pointed the finger at the other as the responsible party.

390. PBM Defendants specifically testified to Congress that Manufacturer Defendants are solely responsible for their price increases and that the Manufacturer Payments that the PBMs receive are not correlated to rising insulin prices.

391. This statement is objectively false. The Manufacturers’ price increases are a direct reflection of the PBMs’ coordinated requests for larger Manufacturer Payments. A February 2020 study by the Leonard D. Schaeffer Center for Health Policy & Economics at the University of South California titled “The Association Between Drug Rebates and List Prices,” found that an increase in the amount that the Manufacturers pay back to the PBMs is directly correlated to an increase in prices—on average, a \$1 increase in Manufacturer Payments is associated with a \$1.17 increase in price—and that reducing or eliminating Manufacturer Payments could result in lower prices and reduced out-of-pocket expenditures.

392. In addition, in a report the National Community Pharmacists Association estimated that Manufacturer Payments add nearly 30 cents per dollar to the price consumers pay for prescriptions.

393. Further, in large part because of the increased list prices, and related Manufacturer Payments, PBMs profit per prescription has grown exponentially over the same time period that prices for the at-issue drugs have been increasing. By way of example, since 2003 Defendant Express Scripts has seen its profit per prescription increase over 500 percent per adjusted prescription.

394. The Manufacturers, on the other hand, argued before Congress that the PBMs were to blame for high drug prices because of their demands for higher Manufacturer Payments in exchange for formulary placement.

395. However, that also is not true. For example, a 2020 study from the Institute of New Economic Thinking titled, “Profits, Innovation and Financialization in the Insulin Industry,” demonstrates that Manufacturer Defendants are still making substantial profits from the sale of diabetes products regardless of any Manufacturer Payments they are sending back to the PBMs. During the same time period when diabetes medication price increases were at their steepest, distributions to Manufacturers’ shareholders in the form of cash dividends and share repurchases totaled *\$122 billion*. In fact, during this time period the Manufacturers spent a significantly lower proportion of profits on research and development compared to shareholder payouts.

396. Indeed, over the past 3 years, each Manufacturer has conducted billions of dollars in stock buybacks, for example, in 2021 Eli Lilly was authorized to conduct \$5 billion in stock buybacks over the course of 2 years.

397. The January 2021 Senate Insulin Report concluded, *inter alia*:

- a. Manufacturer Defendants are retaining more revenue from insulin than in the 2000s—for example, Eli Lilly has reported a steady increase in Humalog revenue for more than a decade—from \$1.5 billion in 2007 to \$3 billion in 2018;
- b. Manufacturer Defendants have aggressively raised the list price of their insulin products absent significant advances in the efficacy of the drugs; and
- c. Manufacturer Defendants only spend a fraction of their revenue related to the at-issue drugs on research and development—Eli Lilly spent \$395 million on R&D costs for Humalog, Humulin and Basaglar between 2014-2018 during which time the company generated \$22.4 billion in revenue on these drugs. From 2016 to 2020, Novo Nordisk spent approximately \$29 billion on stock buybacks and shareholder dividend payouts while only spending approximately \$12 billion on R&D costs.

398. As discussed above, on May 10, 2023 at the 2023 Senate Hearing, Defendants again testified before Congress and each Defendant group once again blamed the other.

399. For example, Paul Hudson, CEO of Sanofi, said during the hearing: “Today, there are just three payors in the system that cover 80% of American lives . . . . These consolidated entities encompass PBMs, health insurance, specialty pharmacies and group purchasing organizations. This vertical integration gives these corporations near total control over the products patients can access and the price they have to pay.”

400. Adam Kautzner, president of Express Scripts, had this to say during the hearing: “Drug manufacturers seek the highest price point possible and exploit the patent system and marketing practices to maintain monopoly status for their brands,”

“For employers sponsoring high-deductible health plans, restrictions prevent lowering costs for patients before meeting their deductible.”

401. The PBM Defendants also continued to misrepresent that their conduct lowers diabetic drug prices. For example, Adam Kautzner testified, “Without the ability to use [rebates] to achieve lower drug costs, health care spending would be much higher.”

402. The truth is—despite their finger pointing in front of Congress—Manufacturers and PBMs are both responsible for their concerted efforts in creating the Insulin Pricing Scheme. This reality was echoed in the statement from the Senate Insulin Report, summarizing Congress’s findings of their two-year probe into the Insulin Pricing Scheme:

[M]anufacturers and [PBMs] have created a vicious cycle of price increases that have sent costs for patients and taxpayers through the roof . . . This industry is anything but a free market when PBMs spur drug makers to hike list prices in order to secure prime formulary placement and greater rebates and fees.

## **F. Defendants Profit Off the Insulin Pricing Scheme**

### **1. Manufacturers Profit Off Insulin Pricing Scheme**

403. For Manufacturer Defendants, the Insulin Pricing Scheme affords them the ability to pay the PBM Defendants significant, yet undisclosed, Manufacturer Payments in exchange for formulary placement—which garners Manufacturer Defendants greater revenues from sales—without decreasing their profit margins. During the relevant time period, PBM Defendants granted preferred formulary position to each at-issue drug in exchange for large Manufacturer Payments and inflated prices.

404. In addition, coordinating with the PBM Defendants to exclude lower priced diabetes medications from the PBMs' formularies increases sales and utilization of higher priced diabetes medications which are more profitable for the Manufacturers.

405. Manufacturer Defendants also use the inflated price to earn hundreds of millions of dollars in additional tax breaks by basing their deductions for donated insulins on the inflated list price.

## 2. PBMs Profit Off Insulin Pricing Scheme

406. Because of the Insulin Pricing Scheme, PBMs' profit per prescription has grown exponentially during the relevant time period. A recent study published in the Journal of the American Medical Association titled, "Estimation of the Share of Net Expenditures on Insulin Captured by US Manufacturers, Wholesalers, Pharmacy Benefit Managers, Pharmacies and Health Plans from 2014 to 2018" concluded that the amount of money that goes to the PBM Defendants for each diabetic drug prescription increased over 150% from 2014 to 2018. In fact, for transactions where the PBM Defendants control the insurer, the PBM and the pharmacy (i.e. Aetna-CVS Health/Caremark-CVS pharmacy) these Defendants now capture an astonishing 50% of the money spent on each diabetic drug prescription (up from only 25% in 2014), despite the fact that they do not contribute to the development, manufacture, innovation or production of the product.

407. PBM Defendants profit off the Insulin Pricing Scheme in myriad ways, including (1) retaining a significant—yet undisclosed—percentage of the Manufacturers Payments, (2) using the inflated price to generate profits from

pharmacies in their networks and (3) utilizing their captive mail order and retail pharmacies in furtherance of the Insulin Pricing Scheme.

*a) PBMs profit off Manufacturer Payments*

408. The first way in which the PBMs profit off the Insulin Pricing Scheme is by keeping a significant portion of the Manufacturer Payments.

409. The amount that the Manufacturers pay back to the PBMs has accelerated to represent a large percentage of the list price of diabetes medications.

410. Historically, when PBMs contracted with payors, the contract allowed the PBM to keep all or at least some of the Manufacturer Payments they received, rather than pass them along to the payor.

411. Over time, payors have secured contract provisions guaranteeing them all or some portion of the “rebates” paid by the Manufacturers to the PBMs. But—critically—“rebates” are only a portion of the total secret Manufacturer Payments.

412. In this regard, PBM and Manufacturer Defendants have created a “hide-the-ball” system where the consideration exchanged between them (and not shared with payors and diabetics) is labeled and relabeled. As more payors moved to contracts that require PBMs to pass a majority of the manufacturer “rebates” through to the payor, PBMs have begun renaming the Manufacturer Payments in order to keep a larger portion of this money. Payments once known as “rebates” are now called administrative fees, volume discounts, service fees, inflation fees or other industry jargon terms designed to obfuscate and distract from the substantial sums being secretly exchanged and retained.



413. And these renamed Manufacturer Payments are indeed substantial. A heavily redacted Petition filed by Defendant Express Scripts revealed that *Express Scripts now retains up to 13 times more in “administrative fees” than it passes through to payors in formulary rebates.*<sup>14</sup>

414. Notably, on June 7, 2022, the Federal Trade Commission (“FTC”) voted 5-0 to issue a policy statement expressing its intent to investigate PBM Defendant practices, including related to Manufacturer Payments, to determine if these practices were unlawful (“PBM FTC Inquiry”). In its policy statement, the FTC cited specifically to the effect that Manufacturer Payments have in the context of the exorbitant insulin prices and the devastating impact such practices have on the lives of diabetics.

415. In addition, the PBMs have come up with numerous ingenious methods to hide these renamed Manufacturer Payments in order keep them for themselves.

416. For example, with regard to the Manufacturer Payments now known as “inflation fees,” the PBMs often create a hidden gap between how much the Manufacturers pay them to increase their prices and the amount in “price protection guarantees” that the PBMs agree to pay back to their client payors.

417. In particular, the Manufacturer Defendants often pay the PBM Defendants “inflation fees” in order to increase the price of their diabetes medications. The thresholds for these payments are typically set around 6% to 8%—if the Manufacturer Defendants raise their prices by more than 6% (or 8%) during a

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<sup>14</sup> *Express Scripts, Inc., et al. v. kaleo, Inc.*, Case No. 4:17-cv-01520-RLW (E.D.Mo 2017).

specified time period they pay the PBM Defendants an additional “inflation fee” (based on a percentage of the artificially inflated prices).

418. For many of their clients, the PBMs have separate “price protection guarantees” that state that if the overall drug prices for that payor increase by more than a set amount, then the PBMs will revert a portion of that amount back to these clients.

419. The PBMs set these “price protection guarantees” at a higher rate than the thresholds that trigger the Manufacturers’ “inflation fees,” usually around 12%-15%.

420. If the Manufacturers increase their list prices more than the 6%-8% inflation fee rate but less than the 10%-15% client price protection guarantee rate, then the PBMs keep 100% of the “inflation fee” payments. This is a win-win for the Manufacturers and PBMs—both retain and share all of the benefit of the price increases while costs for diabetics and payors continue to rise.

421. Another method that the PBMs have devised to conceal and retain Manufacturer Payments is through the use of “rebate aggregators.” Rebate aggregators, sometimes referred to as rebate group purchasing organizations (“GPOs”), are entities that negotiate for and collect Manufacturer Payments from drug manufacturers, including the Manufacturers, on behalf of a large group of pharmacy benefit managers (including the PBM Defendants) and different entities that contract for pharmaceutical drugs.

422. These rebate aggregators are often owned and controlled by the PBM Defendants, such as Ascent Health Services (Express Scripts), Coalition for Advanced Pharmacy Services and Emisar Pharma Services (OptumRx), and Zinc Health Services (CVS Caremark).

423. With respect to Ascent Health, the PBM Prime Therapeutics is a minority owner along with Express Scripts and Ascent negotiates Manufacturer Payments for the majority (if not all) of Prime Therapeutics' covered lives.

424. The PBMs carefully guard the revenue streams from their rebate aggregator activities, hiding them in complex contractual relationships and not reporting them separately in their quarterly SEC filings.

425. Certain rebate aggregator companies are located offshore, for example, in Switzerland (Express Scripts' Ascent Health) and in Ireland (OptumRx's Emisar Pharma Services), making oversight even more difficult.

426. These rebate aggregator entities generate additional and new Manufacturer Payments for the PBM Defendants from new administrative fees, prescription data services, data portals, enterprise fees, and other sources—all based on a percentage of drug list prices. These are revenues earned in addition to the PBM Defendants' typical administrative service fees. The PBM Defendants use Zinc Health, Emisar, and Ascent Health to retain these new Manufacturer Payment fees. These new rebate aggregator fees have become a substantial source of profits for the PBMs and their affiliates (Ascent Health, Emisar, and Zinc Health), and are yet another driver of higher drug prices.

427. The *New York Times* recently published an investigation titled, “The Opaque Industry Secretly Inflating Prices for Prescription Drugs: Pharmacy benefit managers are driving up drug costs for millions of people, employers and the government” (“NYT PBM Investigation”). The NYT PBM Investigation found that “in 2022, PBMs and their [rebate aggregator affiliates] pocketed \$7.6 billion in fees, double what they were bringing in four years earlier.”

428. The NYT PBM Investigation included a quote from an OptumRx executive admitted the purpose behind the creation of these rebate aggregator entities:

“The intention of the [rebate aggregator entities] is to create a fee structure that can be retained and not passed on to a client,” said Kent Rodgers, a former OptumRx executive who helped set up Emisar, “A PBM has to keep some level of income for them to grow and satisfy stockholders.”

429. Moreover, during the relevant time period the PBM Defendants have used their controlled rebate aggregator entities in furtherance of their conspiracy. For example, a 2017 audit conducted by a local governmental entity on Defendant OptumRx related to its PBM activities from January 1, 2013 until December 31, 2015 concluded that the auditor was unable to verify the percentage of rebates OptumRx passed through to its client payor because OptumRx would not allow the auditor access to its rebate contracts. The audit report explained:

Optum[Rx] has stated that it engaged the services of an aggregator to manage its rebate activity. Optum[Rx] shared that under this model, they are paid by their aggregator a certain amount per prescription referred. Then, the aggregator, through another entity, seeks rebates from the drug manufacturers, based upon the referred [Payor Client] prescription utilization, and retains any rebate amounts that may be

received. Optum[Rx] states that they have paid [Payor Client] all amounts it has received from its aggregator, and that they do not have access to the contracts between the aggregator (and its contractors) and the manufacturer. However, our understanding is that Optum[Rx] has an affiliate relationship with its aggregator.

430. A footnote in the audit report clarifies that “Optum[Rx] contracted with Coalition for Advanced Pharmacy Services (CAPS), and CAPS in turn contracted with Express Scripts, Inc.”

431. In other words, according to this audit report, OptumRx contracts with its own affiliate rebate aggregator, Coalition for Advanced Pharmacy Services, who then contracts with OptumRx’s co-conspirator, Express Scripts, who then contracts with the Manufacturers for rebates related to OptumRx’s client’s drug utilization. OptumRx then uses this complex relationship between itself, its affiliate, and its co-conspirator to obscure the amount of Manufacturer Payments that are being generated from its client’s utilization.

432. The January 2021 Senate Insulin Report contained the following observation on these rebate aggregators:

[I]t is noteworthy that industry observers have suggested that the recent partnership between Express Scripts and Prime Therapeutics may serve as a vehicle to avoid increasing legislative and regulatory scrutiny related to administrative fees by channeling such fees through a Swiss-based group purchasing organization (GPO), Ascent Health. While there are several regulatory and legislative efforts underway to prohibit manufacturers from paying administrative fees to PBMs, there is no such effort to change the GPO safe harbor rules. New arrangements used by PBMs to collect fees should be an area of continued investigative interest for Congress.

433. In May 2023, the FTC broadened the PBM FTC Inquiry to include the PBM Defendants’ affiliated rebate aggregators.

434. In April 19, 2024, the Inspector General of the US Office of Personnel Management (OPM) published its final audit report of Express Scripts' management of the pharmacy benefit of the America Postal Workers Union Health Plan (the "Carrier") from 2016 to 2021. The audit found that Express Scripts overcharged the Carrier nearly \$44.9 million by not passing through all Manufacturer Payments required under the contract, which included Ascent Health withholding approximately \$15.8 million in Manufacturer Payments that should have been passed through to the Carrier.

435. Further, in July 2024, CVS Caremark agreed to pay the State of Illinois \$45 million for Manufacturer Payments collected by Zinc Health that should have been passed through to the State of Illinois's health plan.

436. The NYT PBM Investigation also discussed the role of the PBM Defendants' rebate aggregator entities in the Insulin Pricing Scheme:

A former executive of a major drug company, whose responsibilities included negotiating with [PBM Defendants' rebate aggregators], said that he had a set pool of money to cover fees to [PBM Defendants' rebate aggregators] and rebates to employers. When he paid more in fees, he offered less in rebates. Employers are none the wiser. They receive rebates. But they can't see the billions of dollars in fees that the [PBM Defendants' rebate aggregators] take for themselves.

437. Because the PBMs are able to hide (and retain) a majority of the secret Manufacturer Payments that they receive, they are able to make significant profits on the Insulin Pricing Scheme.

438. Even in the rare cases where certain sophisticated payor clients receive a portion of the Manufacturer Payments from their particular pharmacy benefit

manager (whether it is a PBM Defendant or not), those payors are still significantly overcharged as a direct result of the Insulin Pricing Scheme given the extent to which Defendants have inflated the prices of the at-issue drugs.

*b) PBMs profit off pharmacies*

439. A second way that PBM Defendants profit off the Insulin Pricing Scheme is by using the artificially inflated price generated by the scheme to profit off the pharmacies with which they contract, including those in Texas.

440. PBM Defendants decide which pharmacies are included in the PBM's network and how much they will reimburse these pharmacies for each drug dispensed.

441. PBMs pocket the spread between the amount that the PBMs get paid by their clients for the at-issue drugs (which is based on the artificially inflated prices generated by the Insulin Pricing Scheme) and the amount the PBM reimburses the pharmacy (which is often less).

442. PBMs do not disclose to their clients or network pharmacies how much the PBM is receiving from or paying to the other.

443. This spread pricing, like the secret Manufacturer Payment negotiation, happens behind closed doors. There is no transparency, no commitment from PBM Defendants to take into account the cost effectiveness of a drug, and no communication to either the payor or the pharmacy to let them know if they are getting a fair deal. The higher the Manufacturers inflate their prices, the more money the PBMs make off this spread.

444. PBMs also use the Insulin Pricing Scheme to generate additional profits from pharmacies by charging the pharmacies post-purchase fees, including DIR fees<sup>15</sup>, based on the artificially inflated prices generated by the Scheme—and again, the higher the list price for each diabetes medication sold, the more the PBMs generate in these pharmacy fees.

c) *PBM Defendants' captive mail order and retail pharmacies are integral to the Insulin Pricing Scheme*

445. A third way PBMs profit off the Insulin Pricing Scheme is through the PBM Defendants' own mail order and retail pharmacies.

446. As explained above, the PBM Defendants are vertically integrated corporate families that include both PBM entities and mail order/specialty/retail pharmacies (among other entities). Express Scripts (PBM) is affiliated with Accredo (specialty pharmacy) and mail order pharmacies (including Defendant Express Scripts Pharmacy); CVS Caremark (PBM) is affiliated with CVS Specialty Pharmacy (specialty pharmacy), mail order pharmacies, and Defendant CVS Pharmacy (retail), and OptumRx is affiliated with mail order and specialty pharmacies.

447. By owning their own pharmacies, the PBM Defendants are able to steer their clients' prescription-drug plans to those pharmacies, including by requiring and/or incentivizing their covered lives to utilize their own mail order and retail pharmacies, including CVS Pharmacy, OptumRx's mail order pharmacy, and Express Scripts Pharmacy. As stated in the NYT PBM Investigation: the PBM Defendants

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<sup>15</sup> "DIR" fees are post-purchase concessions pharmacies pay back to the PBMs.



“push, and sometimes force, patients to use their pharmacies, whether mail-order or, in [CVS Pharmacy’s] case, the physical drugstores.”

448. In June 2024, the House Committee on Oversight and Accountability released a report titled “The Role of Pharmacy Benefit Managers in Prescription Drug Markets” (“2024 House Committee PBM Report”) found that the PBM Defendants steer patients to their own pharmacies, including CVS Pharmacy and Express Scripts Pharmacy:

The three largest PBMs [including the PBM Defendants] each own retail, mail-order, and specialty pharmacies that are “preferred” in-network under the pharmacy benefit. PBMs steer patients to pharmacies they own by various means, including: (1) preventing patients from receiving 90-day prescriptions at competing pharmacies; (2) abusing data received by the PBM to target patients with highly profitable medications; (3) only covering specialty medications if they are dispensed from a particular pharmacy; and (4) charging patients higher copays at competing pharmacies to incentivize patients to use the PBM owned pharmacy. [Such practices] harms patients and independent community pharmacies, increasing drug prices for patients, employers, and government payers.

449. In addition, the State of Minnesota recently levied a large fine against CVS Caremark for steering patients to its captured pharmacies, including by “[f]orcing a family to drive more than 100 miles or use a mail-order service to refill an insulin prescription.”

450. Once the PBM Defendants steer patients to their affiliated pharmacies, they are overcharging them for the at-issue drugs.

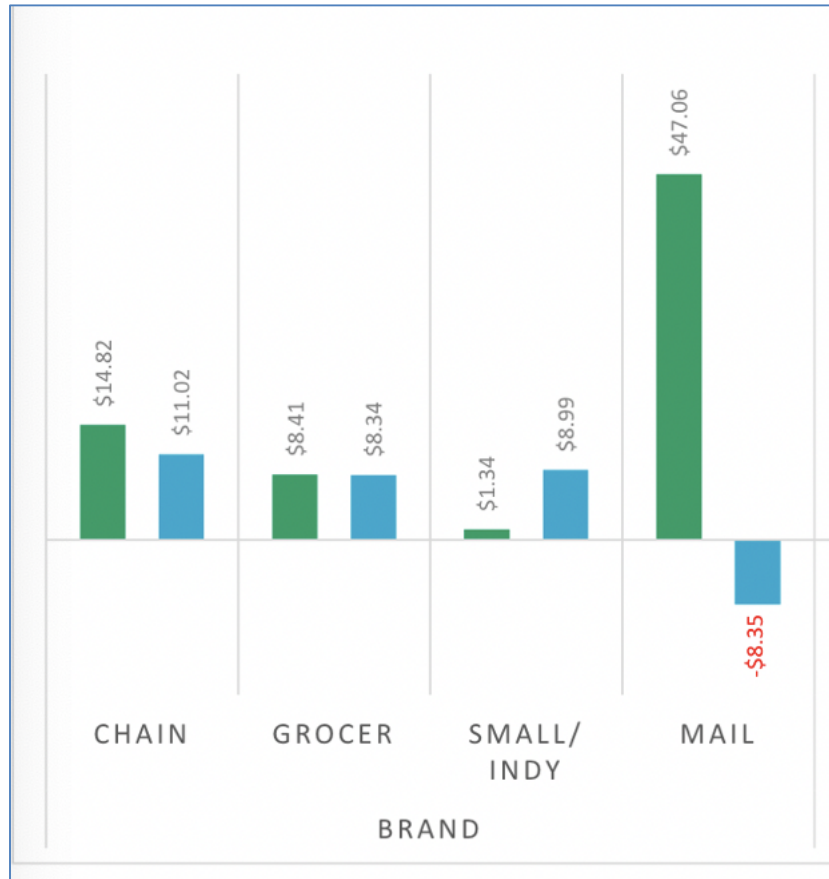
451. The higher the price that PBM Defendants are able to get their customers, such as Texas diabetics and payors, to pay for diabetes medications, the

higher the profits PBM Defendants realize through their mail order and retail pharmacies, such as CVS Pharmacy.

452. Because the PBMs base the price they charge for the at-issue diabetes medications on the list price, the more the Manufacturers inflate these prices, the more money the PBMs make at their captive pharmacies, including CVS Pharmacy, OptumRx's mail order pharmacy, and Express Scripts Pharmacy.

453. A June 2024 study by Three Axis Advisors, a PBM research and investigation firm, found that the PBM Defendants are charging significantly higher prices at their captive pharmacies (which would include CVS Pharmacy, OptumRx's mail order pharmacy, and Express Scripts Pharmacy) for branded drugs, such as the at-issue diabetes medications, than for those prescriptions filled by independent pharmacies. For example, the PBM Defendants are charging their clients a significantly higher markups on brand drugs through their captive mail order pharmacies as demonstrated by the Figure 11:

**Figure 11: Average Markups for Medicines Dispensed through Mail Order versus other channels**



454. PBMs also collect and retain Manufacturer Payments tied directly to drugs dispensed by their mail order pharmacies, such as pharmacy supplemental discount fees, indirect purchase fees and rebates, that are based on the false prices generated by the Insulin Pricing Scheme. Thus, once again, the higher the price is, the more money the PBMs make on these fees.

455. Another way the PBMs generate pharmacy profits from the inflated prices generated by the Insulin Pricing Scheme is by way of an arbitrage purchase scheme. Because of their coordinated efforts with the Manufacturers in furtherance of the Insulin Pricing Scheme, the PBMs often know when the Manufacturers are

going to raise their prices. The PBMs use this knowledge to purchase large quantities of the at-issue drugs prior to the price increases at a lower price. The PBMs then charge diabetics and payors the higher price after the increase and conceal and retain the difference.

456. In sum, the PBM Defendants captive pharmacies, including CVS Pharmacy, are directly involved in and create substantial profits from the Insulin Pricing Scheme.

457. Every way that the PBMs make money on diabetes medications is directly tied to the artificially inflated list prices generated by the Insulin Pricing Scheme. PBMs are not lowering the price of diabetes medications as they publicly represent—rather they are making billions of dollars by fueling these skyrocketing prices.

**G. Texas Diabetics and Payors Pay the PBM Defendants for the At-Issue Drugs**

458. During the relevant time period, the PBM Defendants' mail order and retail pharmacies, including CVS Pharmacy, OptumRx's mail order pharmacy, and Express Scripts Pharmacy, dispensed the at-issue drugs to and were paid by Texas diabetics based on the inflated list prices generated by the Insulin Pricing Scheme.

459. CVS Pharmacy owns and operates over 700 retail pharmacies throughout Texas. During the relevant time period, CVS Pharmacy dispensed the at-issue drugs to Texas diabetics and was paid by Texas diabetics and payors for these drugs at prices that were set based on the artificially inflated prices resulting from the Insulin Pricing Scheme. As explained above, working as part of the CVS Health

corporate enterprise, CVS Pharmacy is an integral part of and profited from the Insulin Pricing Scheme.

460. In addition, CVS Caremark's, Express Scripts', OptumRx's mail order pharmacies dispensed the at-issue drugs to Texas diabetics and were paid for these drugs at prices that were set based on the artificially inflated prices resulting from the Insulin Pricing Scheme.

461. During the relevant time period, Express Scripts provided pharmacy benefit and mail order pharmacy services to Texas payors and businesses, including for example, the University of Texas, Texas A&M, Exxon, and Wells Fargo. Through these roles, Express Scripts was paid by Texas payors and consumers for the at-issue drugs at prices that were set by Express Scripts based on the artificially inflated prices resulting from the Insulin Pricing Scheme.

462. During the relevant time period, CVS Caremark provided pharmacy benefit and mail order pharmacy services to Texas payors and businesses, including for example, Southwest Airlines, Home Depot, and Shell Oil. Through these roles, CVS Caremark was paid by Texas payors and consumers for the at-issue drugs at prices that were set by CVS Caremark based on the artificially inflated prices that resulted from the Insulin Pricing Scheme.

463. During the relevant time period, OptumRx provided pharmacy benefit and mail order pharmacy services to Texas payors and consumers, including for example, Baylor, Scott & White, FedEx, and Health Select Texas. Through these roles, OptumRx was paid by Texas payors and consumers for the at-issue drugs at prices

that were set by OptumRx based on the artificially inflated prices resulting from the Insulin Pricing Scheme.

#### **H. Defendants Deceived Texas Diabetics and Payors**

##### **1. Manufacturer Defendants deceived Texas diabetics and payors**

464. At all times during the relevant time period, Manufacturer and PBM Defendants knew that diabetics and payors relied on the artificially inflated list prices generated by the Insulin Pricing Scheme to pay for the at-issue drugs. That is, Texas diabetics and payors relied on the artificially inflated list prices by purchasing diabetic medications at such prices.

465. Manufacturer and PBM Defendants further knew that Texas diabetics and payors expected and desired to pay the lowest fair-market price possible for the at-issue drugs. In fact, as discussed in greater detail below, the PBM Defendants repeatedly represented that they were using their market power to ensure that Texas diabetics and payors paid the lowest price possible.

466. Manufacturer and PBM Defendants knew that the artificially inflated list prices generated by the Insulin Pricing Scheme were false and completely untethered from the net prices that the Manufacturer Defendants actually received for the drugs.

467. As the list prices for the at-issue drugs detached completely from the Manufacturers' net prices, the list prices became misrepresentative and unlawful.

468. Despite this knowledge, Manufacturer Defendants caused the artificially inflated list prices generated by the Insulin Pricing Scheme to be published

throughout Texas through publishing compendia and in various promotional and marketing materials distributed by entities downstream in the drug supply chain.

469. Manufacturer Defendants also published these prices to the PBMs and pharmacies in their networks, including their own captive pharmacies such as CVS Pharmacy, who then use the false prices to set the amount payors and diabetics pay for the at-issue drugs.

470. By publishing their artificially inflated prices throughout Texas, the Manufacturers held these prices out as a reasonable price by which to base the prices diabetics and payors pay for the at-issue drugs.

471. These representations are false. Manufacturer Defendants knew that their artificially inflated list prices are not remotely related to the net prices they receive for the at-issue drugs and are not based on transparent or market-based factors such as competition, cost of production, or research and development.

472. The Manufacturer Defendants could have reported and published prices that accurately reflect the actual, net prices of the at-issue diabetes medications. However, in furtherance of and in order to conceal the Insulin Pricing Scheme the Manufacturer Defendants deliberately published only the artificially inflated prices.

473. Notably, during the relevant time period, the Manufacturers published prices in Texas of \$300-\$400 for the same at-issue drugs that were sold in other countries for less than \$5.

474. Manufacturer Defendants have also publicly represented that they price the at-issue drugs according to each drug's value to the health care system and the

need to fund innovation and research. For example, briefing materials prepared for Chief Executive Officer (CEO) Dave Ricks as a panelist at the 2017 Forbes Healthcare Summit included “Reactive Key Messages” on pricing that emphasized the significant research and development costs for insulin. During the relevant time period, executives from Sanofi and Novo Nordisk also represented that research and development costs were key factors driving the at-issue price increases.

475. These statements are also false. Between 2005 and 2018, Eli Lilly only spent \$680 million on R&D costs related to Humalog while earning \$31.35 billion in *net* sales during that same time period. In other words, Eli Lilly made more than 46 times its reported R&D costs on Humalog during this portion of the relevant time period. Additionally, data reported in the 2021 Senate Report demonstrates that Eli Lilly’s R&D spending for its entire “diabetes franchise”, including both insulins and GLP-1s, was “just one-third of its sales, goods and administrative expenses” for 2017-2018.

476. Novo Nordisk has spent triple the amount it spends on R&D on stock buyouts and shareholder dividend payouts in recent years.

477. As for Sanofi, the 2021 Senate Report concluded that its R&D spending on Lantus, Soliqua, Toujeo, Apidra, and one other diabetes medication accounted for a “fraction of the company’s reported revenue from its diabetes franchise” between 2014-2018.



478. The Manufacturers' list prices were artificially inflated in furtherance of the Insulin Pricing Scheme to generate profits for the Manufacturer and PBM Defendants.

479. Manufacturer Defendants affirmatively withheld the truth from Texas diabetics and payors and specifically made these misrepresentations in furtherance of the Insulin Pricing Scheme and to induce reliance in payors and diabetics to purchase their at-issue drugs.

480. PBM Defendants ensured that the Manufacturers' artificially inflated list prices harmed diabetics and payors by requiring that their contracts with both pharmacies and with payors included them as the basis for payment.

481. PBMs perpetuate the use of the artificially inflated insulin prices because it allows them to obscure the actual price any entity in the drug pricing chain is paying for the at-issue drugs. This concealment and lack of transparency affords Defendants the opportunity to construct and perpetuate the Insulin Pricing Scheme, and to profit therefrom.

2. PBM Defendants deceived Texas diabetics and payors

482. PBM Defendants have deceived diabetics and payors in Texas.

483. Throughout the relevant time period, PBM Defendants have consistently and repeatedly represented that: (a) their interests are aligned with diabetics and payors; (b) they work to lower the price of the at-issue drugs and, in doing so, they achieve substantial savings for diabetics, payors, and the healthcare system; and (c) that the PBMs construct formularies designed to improve the health of diabetics.

484. PBMs understand that diabetics and payors and their beneficiaries rely on the PBMs to achieve the lowest prices for the at-issue drugs and to construct formularies designed to improve their health and lower costs.

485. At no time have the PBM Defendants disclosed their knowledge and perpetuation of the artificially inflated list prices for the at-issue drugs; to the contrary, the PBMs ensured that diabetics and payors pay based on those artificially inflated list prices.

486. In addition to the general PBM misrepresentations discussed above in the Parties section, throughout the relevant time period and continuing to this day, PBM Defendants have purposefully, consistently, and routinely made misrepresentations specifically about the at-issue Manufacturer Payments, formulary construction, and the PBMs' role in the diabetic pricing system. Examples include:

- a. In a public statement issued on May 11, 2010, CVS Caremark represented that it was focused on diabetes to “help us add value for our PBM clients and improve the health of plan members . . . a PBM client with 50,000 employees whose population has an average prevalence of diabetes could save approximately \$3.3 million a year in medical expenditures.”
- b. On June 22, 2010, Andrew Sussman, Chief Medical Officer of CVS Caremark stated on national television that “CVS is working to develop programs to hold down [diabetes] costs.”
- c. In a public statement issued in November 2012, CVS Caremark represented that formulary decisions related to insulin products “is one way the company helps manage costs for clients.”
- d. On August 31, 2016, Glen Stettin, Senior Vice President and Chief Innovation Officer at Express Scripts released a statement that stated “[d]iabetes is wreaking havoc on patients, and it is also a runaway driver of costs for payors . . . [Express Scripts] helps our clients and diabetes patients prevail over cost and care challenges created by this terrible disease.”

- i. Mr. Stettin continued on to represent that Express Scripts “broaden[s] insulin options for patients and bend[s] down the cost curve of what is currently the costliest class of traditional prescription drugs.”
- e. In January 2017, Tim Wentworth, CEO of Express Scripts represented that “without PBMs, and specifically without Express Scripts, our clients would pay [many times] more for [insulin].”
  - i. Mr. Wentworth continued on to state Express Scripts is dedicated to controlling insulin prices because “we stand up for payers and patients.”
- f. On June 1, 2018, Mark Merritt, President of the PCMA, in response to a question about PBMs’ role in the insulin pricing system stated, “[Through their formulary construction], PBMs are putting pressure on drug companies to reduce insulin prices.”
- g. On April 4, 2019, Steve Miller, Express Scripts’ chief medical officer, stated that Express Scripts “give[s] people who rely on insulin greater affordability and cost predictability so they can focus on what matters most: their well-being.” Dr. Miller continued on to describe Express Scripts’ work on behalf of diabetics as, “[b]etter care and better outcomes are rooted in greater choice, affordability, and access, and we can bring all of these to people with the greatest needs.”
- h. CVS Health’s Chief Policy and External Affairs Officer testified during the April 2019 hearings that, CVS Caremark “has taken a number of steps to address the impact of insulin price increases. We negotiate the best possible discounts off the manufacturers’ price on behalf of employers, unions, government programs, and beneficiaries that we serve.”
- i. Chief Medical Officer of OptumRx, testified before the U.S. Congress in the April 2019 hearing that for “insulin products . . . we negotiate with brand manufacturers to obtain significant discounts off list prices on behalf of our customers.”
- j. The PCMA website contains the following misrepresentations, “the insulin market is consolidated, hindering competition and limiting alternatives, leading to higher list prices on new and existing brand insulins. PBMs work hard to drive down costs using formulary management and rebates.”

- k. In August 2022, Heather Cianfrocco, CEO of OptumRx, stated that “[t]he need for affordable insulin is urgent, especially for uninsured populations” and represented that OptumRx can improve access and lower costs for those who need an affordable insulin solution. OptumRx also reiterated that it leverages its core clinical and pharmacy benefit capabilities to negotiate lower prices and discounts.

487. PBM Defendants not only falsely represent that they negotiate with Manufacturer Defendants to lower the price of the at-issue diabetes medications for *payors*, but also for diabetic *patients* as well. Examples include:

- a. Express Scripts’ publicly available code of conduct states, “[a]t Express Scripts we’re dedicated to keeping our promises to *patients and clients* . . . This commitment defines our culture, and all our collective efforts are focused on our mission to make the use of prescription drugs safer and more affordable.” (Emphasis added).
- b. Amy Bricker, then President at Express Scripts testified before Congress in April 2019, “At Express Scripts we negotiate lower drug prices with drug companies on behalf of our clients, *generating savings that are returned to patients* in the form of lower premiums and reduced out-of-pocket costs.” (Emphasis added).
- c. Amy Bricker of Express Scripts also testified at the Congressional hearing that “Express Scripts remains committed to . . . *patients* with diabetes and creating affordable access to their medications.” (Emphasis added).
- d. OptumRx’s website has stated “[t]he services we provide help *improve health outcomes for patients* while making prescription drugs more affordable for plan sponsors and *individuals*, and more sustainable for the country . . . the reason is simple: drug manufacturers are responsible for the high cost of prescription drugs . . . OptumRx negotiates better prices with drug manufacturers for our customers *and consumers* . . . At OptumRx, *our mission is helping people live healthier lives and to help make the health system work better for everyone.*” (Emphasis added).
- e. In its 2017 Drug Report, CVS Caremark stated that the goal of its pharmacy benefit plans is to ensure “that the cost of a drug is aligned with the value it delivers in terms of *patient* outcomes . . . in 2018, we

are doing even more to help keep drugs affordable with our new Savings *Patients* Money initiative.” (Emphasis added).

- f. The PCMA website states, “PBMs have kept average out-of-pocket (OOP) payments flat for beneficiaries with commercial insurance.”
- g. On March 12, 2019, OptumRx represented, “OptumRx is uniquely able to deploy the broadest range of tools to rein in high drug prices, [which] demonstrates our commitment to delivering better prices for consumers.”

488. In 2024, Travis Tate, VP of Formulary and Trend Solutions for CVS Caremark represented on CVS Health’s website that CVS Caremark’s “formulary design continues to deliver savings while optimizing plan member experience.” Mr. Tate further represented that CVS Caremark’s managed formularies deliver \$4.8 billion in client savings and \$138 in savings per patient. Mr. Tate also represented that “[CVS Caremark is] dedicated to keeping member costs low so they can afford their medications while limiting member disruption.”

489. In April 2024, David Joyner, the Executive Vice President of CVS Caremark, made the following representations in a Fortune article:

- a. “[CVS Caremark] exist[s] to make prescription drugs more affordable.”
- b. “As we work to bring down costs, you’ll hear from others who want to raise [drug prices], specifically pharmaceutical companies who are directly responsible for how drugs are priced in our country.”
- c. “At CVS Caremark, we are creating a more transparent environment for drug pricing in this country . . . for every drug from every manufacturer for every condition and every patient.”
- d. “[CVS Caremark’s] size and scale allow us to go toe-to-toe with drug companies, driving competition and negotiating discounts that make the difference between someone affording their medication or going without.”

- e. “[CVS Caremark] take[s] on every challenge, manage every drug, and deliver savings and safety.”

490. CVS Caremark’s website represents it is “[w]orking to keep prescription drug costs down for members and clients.” CVS Caremark further claims it is “[i]mproving health through affordability” because “people are more likely to take their prescribed medications when they know they can afford them – and that can lead to better health outcomes.”

491. CVS Caremark also represents on the CVS Health website:

- a. “Pharmaceutical manufacturers insist that increasing drug prices are a result of them having to pay rebates. This is simply not true.”
- b. “Pharmaceutical manufacturers also argue that PBMs retain the rebates they negotiate, and that higher prices mean more rebates and greater profits for PBMs. This is entirely false. Rebate retention also has no correlation to higher drug prices.”
- c. “At CVS Health, we are committed to using every tool possible and continuing to drive innovation to bring down the cost of drugs. We remain focused on providing the right drug to the right patient at the right time at the lowest possible cost.”

492. Express Scripts claimed in a 2019 article titled “What’s a Pharmacy Benefit Manager” that Express Scripts “work[s] with plan sponsors to provide a benefit that delivers the best clinical outcome and the lowest possible cost.” Express Scripts also publicly represented in this article:

- a. “By delivering smarter solutions to patients and clients, PBMs provide better care and lower cost with every prescription, every time.”
- b. “Rebates do not raise drug prices, drug makers raise drug prices, and they alone can lower them. Consider the cost of Humalog® (insulin lispro): over the past seven years, the list price for this medication has increased dramatically, yet the net cost has

remained relatively constant. Without PBMs, and specifically without Express Scripts, plan sponsors would have paid exponentially more for their prescription drugs.”

- c. “We . . . negotiate with drug manufacturers so no one pays more than they need to.”
- d. “FACT: Public disclosure of negotiated rebates will not lower prescription drug costs. #PBMs Express Scripts negotiates with drug manufacturers to increase competition and lower costs for patients.”

493. Not only have PBM Defendants intentionally misrepresented that they use their market power to save payors and diabetics money, they have falsely disavowed that their conduct drives the artificially inflated list prices higher.

Examples include:

- a. On an Express Scripts’ earnings call in February 2017, CEO Tim Wentworth stated, “Drugmakers set prices, and we exist to bring those prices down.”
- b. Larry Merlo, head of CVS Caremark sounded a similar refrain in February 2017, “Any suggestion that PBMs are causing prices to rise is simply erroneous.”
- c. In 2017, Express Scripts’ Wentworth went on CBS News to again argue that PBMs play no role in rising drug prices, stating that PBMs work to “negotiate with drug companies to get the prices down.”
- d. During the April 2019 Congressional hearings, when asked if PBM-negotiated rebates and discounts were causing the insulin price to increase, OptumRx’s Chief Medical Officer answered, “we can’t see a correlation when rebates raise list prices.”
- e. In 2019, when testifying under oath before Congress on the rising price of insulins, then Senior Vice President Amy Bricker of Express Scripts testified, “I have no idea why the prices [for insulin] are so high, none of it is the fault of rebates.”
- f. In 2023 when testifying before Congress about insulin prices, Heather Cianfrocco stated, “[OptumRx] has been at the forefront of efforts to make insulin more affordable.” Ms. Cianfrocco continued, “we support and encourage lower list prices across the board.”

494. Throughout the relevant time period, PBM Defendants have also misrepresented that they are transparent about the Manufacturer Payments that they receive and that they pass along (or do not pass along) to payors. As stated above, PBM Defendants retain many times more in total Manufacturer Payments than the traditional formulary “rebates” they may pass through—in whole or part—to payors.

495. Despite this, in 2011, OptumRx’s President stated: “We want our clients to fully understand our pricing structure . . . [e]veryday we strive to show our commitment to our clients, and one element of that commitment is to be open and honest about our pricing structure.”

496. In a 2017 CBS News interview, Express Scripts’ CEO, represented, among other things, that Express Scripts was “absolutely transparent” about the Manufacturer Payments it receives and that payors, “know exactly how the dollars flow” with respect to these Manufacturer Payments.

497. When testifying before Congress in April 2019, Amy Bricker, then President of Express Scripts, had the following exchange with Representative John Sarbanes of Maryland regarding the transparency (and lack thereof) of the Manufacturer Payments:

Ms. Bricker. The rebate system is 100 percent transparent to the plan sponsors and the customers that we service. To the people that hire us, employers of America, the government, health plans, what we negotiate for them is transparent to them. . . [However] the reason I’m able to get the discounts that I can from the manufacturer is because it’s confidential [to the public].

Mr. Sarbanes. What about if we made it completely transparent? Who would be for that?



Ms. Bricker. Absolutely not . . . it will hurt the consumer.

Mr. Sarbanes. I don't buy it.

Ms. Bricker – prices will be held high.

Mr. Sarbanes. I am not buying it. I think a system has been built that allows for gaming to go on and you have all got your talking points. Ms. Tregoning [of Sanofi], you have said you want to guarantee patient access and affordability at least ten times, which is great, but there is a collaboration going on here . . . the system is working for both of you at the expense of the patient. Now I reserve most of my frustration for the moment in this setting for the PBMs, because I think the lack of transparency is allowing for a lot of manipulation. I think the rebate system is totally screwed up, that without transparency there is opportunity for a lot of hocus-pocus to go on with the rebates. Because the list price ends up being unreal in certain ways except to the extent that it leaves certain patients holding the bag, then the rebate is negotiated, but we don't know exactly what happens when the rebate is exchanged in terms of who ultimately benefits from that. And I think we need more transparency and I do not buy the argument that the patient is going to be worse off, the consumer is going to be worse off if we have absolute transparency . . . *I know when you started out, I understand what the mission was originally with the PBMs . . . But now things have gotten out of control. You are too big and the lack of transparency allows you to manipulate the system at the expense of the patients.* So I don't buy the argument that the patient and consumer is going to get hurt if we have absolute transparency. (Emphasis added)

498. Throughout the relevant time period, the PBMs have made the foregoing misrepresentations consistently and directly to Texas diabetics through member communications, formulary change notifications, and through extensive direct-to-consumer pull through efforts engaged in with the Manufacturers.

499. PBM Defendants also make these same representations directly to their Texas payor clients—that their interests are aligned with their payor clients, that they lower the price of the at-issue drugs, and that their formulary construction is for the benefit of diabetics and payors.

500. The above stated PBM Defendants' representations are false.

501. Contrary to their representations that they lower the price of the at-issue drugs for diabetics and payors, PBMs' formulary construction and the Manufacturer Payments they receive in exchange for formulary placement have caused the price paid by diabetics and payors to significantly increase.

502. For example, both diabetics and payors in Europe and Canada pay significantly less for their diabetes medications than diabetics in the United States who are affected by the Insulin Pricing Scheme.

503. In addition, diabetics that receive their medications from federal programs that do not utilize PBMs also pay significant less. For example, in December 2020, the United States House of Representatives Committee on Oversight and Reform issued a Drug Pricing Investigation Report that found that federal health care programs that negotiate directly with the Manufacturers (such as the Department of Veterans Affairs), and thus are outside the PBM Defendants' scheme, paid \$16.7 billion less from 2011 through 2017 for the at-issue drugs than the Medicare Part D program which relies on the PBM Defendants to set their at-issue drug prices (and thus are victims of the PBMs' concerted efforts to drive up the list prices).

504. The NYT PBM Investigation concluded:

The job of the P.B.M.s is to reduce drug costs. Instead, they frequently do the opposite. They steer patients toward pricier drugs, charge steep markups on what would otherwise be inexpensive medicines and extract billions of dollars in hidden fees, a New York Times investigation found.

505. The NYT PBM Investigation further “found that the largest PBMs often act in their own financial interest, at the expense of their clients and patients.” Among the findings of the NYT PBM Investigation:

- a. P.B.M.s sometimes push patients toward drugs with higher out-of-pocket costs, shunning cheaper alternatives.
- b. They often charge employers . . . multiple times the wholesale price of a drug, keeping most of the difference for themselves. That overcharging goes far beyond the markups that pharmacies, like other retailers, typically tack on when they sell products.
- c. The largest P.B.M.s recently established subsidiaries that harvest billions of dollars in fees from drug companies, money that flows straight to their bottom line and does nothing to reduce health care costs.

506. Contrary to their representations that they work to promote the health of diabetics, as a result of the Insulin Pricing Scheme many diabetics have been priced out of these life-sustaining medications. As a result, many of these diabetics are forced to either ration their insulin or to skip doses. This behavior is dangerous to a diabetic’s health and can lead to a variety of complications and even death.

507. Both PBM and Manufacturer Defendants knew that these representations were false when they made them and affirmatively withheld the truth regarding the artificially inflated list prices, formulary construction, and Manufacturer Payments from the Texas diabetics and the State. Both PBM Defendants and Manufacturer Defendants intended for Texas residents with diabetes to rely on their misrepresentations.

508. Defendants concealed the falsity of these representations by closely guarding their pricing structures, agreements, and sales figures.

509. Manufacturer Defendants do not disclose to diabetics, payors or the public the actual prices they receive for the at-issue drugs or the amount in Manufacturer Payments they pay to the PBM Defendants.

510. PBM Defendants do not disclose to diabetics, payors or the public the details of their agreements with Manufacturer Defendants or the Manufacturer Payments they receive from them—nor do they disclose the details related to their agreements with payors and pharmacies.

511. Each Defendant conceals this information and its misconduct by signing confidentiality agreements with any entity in the supply chain with which it contracts.

512. PBM Defendants have gone as far as suing governmental entities to block the release of details on their pricing agreements with Manufacturers and pharmacies. Defendants and their trade organizations, including PCMA and PhRMA, expend considerable resources fighting and blocking any legislative efforts aimed at drug pricing transparency.

513. Even when audited by payors, PBM Defendants often still refuse to disclose their agreements with Manufacturers and pharmacies, relying on overly broad confidential agreements, claims of trade secrets and other unnecessary restrictions.

514. Each Defendant's effort to conceal its pricing structures for the at-issue drugs is evidence that each Defendant knows its conduct is unlawful.

515. To make matters worse, Texas diabetics and payors have no choice but to pay based on Defendants' artificially inflated list prices because they need these

medications to survive, the Manufacturer Defendants make virtually all of the diabetes medications available in Texas, and the PBM Defendants completely dominate the pharmacy benefit services market and control nearly every Manufacturer Payment paid in the market.

516. In sum, the entire diabetes drug pricing structure created by the Defendants—from the false prices, to the Manufacturers’ misrepresentations related to the reason behind the price, to the inclusion of the false prices in payor contracts, to the non-transparent Manufacturer Payments, to the misuse of formularies, to the PBMs’ representations that they work to lower prices and promote the health of diabetics—is unlawful.

517. Texas diabetics pay for the at-issue diabetes medications at the artificially inflated prices generated by the Insulin Pricing Scheme because they relied on these prices as reasonable bases for their life sustaining medications.

518. Texas diabetics and payors did not know, because the Defendants affirmatively concealed, that (i) the list prices were artificially inflated; (ii) the list prices were manipulated to satisfy Defendants’ profit demands; (iii) the list prices bore no relationship to the net prices received by the Manufacturers for the at-issue drugs; and (iv) that the entire diabetic drug pricing structure was created and perpetuated by Defendants’ misconduct.

## **I. The Insulin Pricing Scheme Has Damaged Diabetics and Payors**

### **1. Defendants' misconduct has caused increased healthcare costs**

519. As discussed below, the PBM Defendants formulary exclusions and the rising prices for the at-issue drugs has had a devastating effect on the health of diabetics. It has also caused a staggering increase in healthcare costs.

520. As a direct result of the Insulin Pricing Scheme, 1 in 4 Texas diabetics can no longer afford their diabetes medication and are forced to ration and skip doses. This forced lack of adherence to their diabetes medications leads to substantial additional healthcare costs.

521. One national model projected that improved adherence to diabetes medication would avert 699,000 emergency department visits and 341,000 hospitalizations annually, for a savings of \$4.7 billion. The model further found that eliminating the loss of adherence would lead to another \$3.6 billion in savings, for a combined potential savings of \$8.3 billion.

522. Much of the increased healthcare costs caused by the Insulin Pricing Scheme are shouldered by the State. As a result of the Insulin Pricing Scheme, the amount Texas spends each year on diabetes-related healthcare costs has risen dramatically during the relevant time period, now totaling in the billions of dollars per year.

523. Lack of adherence to diabetes medications also has a significant adverse effect on labor productivity in terms of absenteeism (missing work due to health-related reasons), presenteeism (being present at work but not productive), and disability (inability to perform necessary physical tasks at work).

2. The Insulin Pricing Scheme has damaged Texas diabetics and payors

524. The price paid by all of the PBM Defendants' Texas clients, which include Texas businesses that offer employee prescription plans, is directly tied to the Manufacturer Defendants list price that has been inflated as a result of the Insulin Pricing Scheme. Thus, Defendants' misconduct in furtherance of the Insulin Pricing Scheme has caused Texas businesses to substantially overpay for the at-issue drugs that were utilized by their employee health plans.

525. With respect to Texas diabetics, whether insured or not, all Texas diabetics pay a substantial part of their diabetic drug costs based on Defendants' artificially inflated list prices generated by the Insulin Pricing Scheme and thus have been directly damaged.

526. The Insulin Pricing Scheme has caused the prices that Texas diabetics must pay for diabetic drugs to skyrocket over the last fifteen years.

527. In addition to financial losses, for many diabetics in Texas, the Insulin Pricing Scheme has cost them their health and emotional well-being. As a result of increased prices and the fact that the PBM Defendants have been excluding more affordable diabetes medications from their formularies, many Texas diabetics have been priced out of these life sustaining medications.

528. Unable to afford Defendants' price increases, many diabetics in Texas have begun to engage in highly risky behaviors with respect to their disease such as rationing their medications, skipping their refills, injecting expired insulin, reusing needles, and avoiding doctors' visits. To compensate for their lack of treatment, some

patients starve themselves, foregoing one or even two meals a day. These practices—which ineffectively control blood sugar levels—can lead to serious complications such as kidney disease and failure, heart disease and heart attacks, infection, amputation, and blindness, which harm not only the individual persons affected, but also harm the Texas healthcare system as a whole by burdening its resources and the Texas economy by requiring additional millions of dollars of additional revenues to be spent.

529. A recent study by Yale researchers found that 14% of diabetics face “catastrophic” spending on insulin (defined as 40% of their income beyond what they spend on food and housing) and nearly half of diabetics reported rationing their insulin supply because of its cost.

530. In addition to insulin, recent articles have also described GLP-1s as an absolute gamechanger for people living with diabetes, however they have been priced out of the reach of tens of millions of people because of the Insulin Pricing Scheme.

531. A recent article by the Kaiser Family Foundation explained how the inflated prices for GLP-1 drugs caused by the Insulin Pricing Scheme is harming diabetics:

[O]ver half of adults who had taken a GLP-1 drug, including those with insurance, said the cost was “difficult” to afford. But it is patients with the lowest disposable incomes who are being hit the hardest. These are people with few resources who struggle to see doctors and buy healthy foods. In the United States, Novo Nordisk charges about \$1,000 for a month’s supply of Ozempic, and Eli Lilly charges a similar amount for Mounjaro. The high prices also mean that not everyone who needs the drugs can get them. “They’re kind of disadvantaged in multiple ways already and this is just one more way,” said Wedad Rahman, an endocrinologist with Piedmont Healthcare in Conyers, Georgia . . . By



the time many of Rahman’s patients see her, their diabetes has gone unmanaged for years [because they cannot afford their medicines] and they’re suffering from severe complications like foot wounds or blindness. “And that’s the end of the road,” Rahman said. “I have to pick something else that’s more affordable and isn’t as good for them.”

532. Earlier this year CBS News reported in an article titled “High Price of Ozempic, other diabetes drugs deprive low-income people more effective treatment”:

The “outrageously high” price has “the potential to bankrupt Medicare, Medicaid, and our entire health care system,” Sen. Bernie Sanders, an independent from Vermont, who chairs the U.S. Senate Committee on Health, Education, Labor and Pensions, wrote in a letter to Novo Nordisk in April.

533. Even when diabetics can still afford their diabetic medications, as a direct result of PBM Defendants shifting which diabetes medications are favored on their formularies (“non-medical switching”), diabetics are often forced to switch medications every few years or go through a lengthy appeal process (or try the favored drug first) before receiving the patient’s preferred medication.

534. Non-medical switching for biologic drugs, such as the at-issue drugs, causes increased health problems for diabetics and increased healthcare costs for diabetics, payors, and the healthcare system.

535. The Insulin Pricing Scheme has pushed, and will continue to push, access to these lifesaving drugs out of reach for many diabetes patients in Texas.

536. Because Texas diabetics and payors continue to pay for the at-issue drugs based on the artificially inflated prices generated by the Insulin Pricing Scheme, the harm is ongoing.

## **J. Defendants' Recent Efforts in Response to Rising Insulin Prices**

537. In reaction to the mounting political and public pressure, Defendants recently have taken action, both on Capitol Hill and in the insulin marketplace.

538. In recent years, Novo Nordisk's political action committee ("PAC") has doubled its spending on federal campaign donations and on lobbying efforts. In 2017 alone, Novo Nordisk spent \$3.2 million lobbying Congress and federal agencies, its biggest ever investment in directly influencing U.S. policymakers.

539. Eli Lilly and Sanofi have directed millions of dollars through their PACs as well in recent years.

540. Likewise, the PBM Defendants have steadily increased their political spending for the past five years as public outcry has grown against them.

541. Defendants have also recently begun introducing programs ostensibly aimed at lowering the cost of insulins.

542. These affordability measures fail to address the structural issues that have given rise to the price hikes. Rather, these steps are merely public relations stunts that do not solve the problem.

543. For example, in March 2019, Defendant Eli Lilly announced that it would produce an authorized generic version of Humalog, "Insulin Lispro," and promised that it would "work quickly with supply chain partners to make [the authorized generic] available in pharmacies as quickly as possible."

544. However, in the months after Eli Lilly's announcement, reports raised questions about the availability of "Insulin Lispro" in local pharmacies.

545. Following this, a Congressional staff report was issued examining the availability of this drug. The investigative report, *Inaccessible Insulin: The Broken Promise of Eli Lilly's Authorized Generic*, concluded that Eli Lilly's lower-priced, authorized generic insulin is widely unavailable in pharmacies across the country, and that the company has not taken meaningful steps to increase insulin accessibility and affordability.

546. The conclusion of the report was that: “Eli Lilly has failed to deliver on its promise to put a more-affordable insulin product on the shelves. Instead of giving patients access to its generic alternative, this pharmaceutical behemoth is still charging astronomical prices for a drug people require daily and cannot live without.”

547. In addition, in 2023 the Manufacturer Defendants significantly lowered the list prices of certain insulins (in some cases by as much as 70%). While the Manufacturer Defendants each made public statements that the price reductions were designed to help diabetics by making insulin affordable, those statements obscure the true motivations behind these price cuts.

548. First, the Manufacturer Defendants could have taken these steps years ago. Taking this action now only confirms how grossly and artificially inflated their prices have been for years.

549. Second, even with the price cuts, the Manufacturer Defendants are still making sizeable profits and the price is still significantly inflated compared to other countries. As reported in a 2023 Los Angeles Times article:

Moreover, the price rollback still doesn't bring Lilly insulin back to where it should be on an inflation-adjusted basis compared with the price of its

key product, Humalog, upon its launch in 1996. Back then, Humalog cost \$21 per vial, which would be about \$40 in today's money; the rollback will reduce the price of a vial from \$274.70 to \$66.40, according to calculations by the Washington consulting firm Veda Partners. So it's still higher by two-thirds than it should be, accounting for inflation . . .

“Lilly is going to bank a lot of goodwill for this, without taking necessarily a big hit to their bottom line,” says Andrew Mulcahy, senior researcher at Rand Corp. and lead author of a 2020 Rand comparison of insulin prices in the U.S. and other countries. That analysis showed that U.S. insulin prices were way out of line with the rest of the world: For example, a benchmark unit cost (in U.S. dollars) \$6.94 in Australia, \$12 in Canada and \$7.52 in Britain — but nearly \$100 in the U.S. Even if Lilly's price cuts are followed by its competitors, “U.S. prices are still higher than prices in the other countries,” Mulcahy told me, though by two to three times rather than by 10 times.

550. Third, despite representing that their price cuts were aimed at helping diabetics, in reality these price cuts were largely motivated by new Medicaid rules that took effect on January 1, 2024. These new Medicaid rules impose large penalties on drugmakers who raise prices faster than inflation. Each of the Manufacturer Defendants were facing huge penalties due to their steep insulin price increases if they did not significantly lower their prices by the end of 2023. For example, one study estimated that Eli Lilly's insulin price cuts would produce approximately \$517 million in gains for the company by avoiding the new Medicaid charges.

551. Finally, the price cuts only affect certain analog insulins, such as Lilly's Humalog and Novo's Novolog, not all diabetes medications. More importantly, the price cuts do not address the fundamental misconduct driving the Insulin Pricing Scheme.

## VI. STATUTE OF LIMITATIONS

552. None of the statutes of limitations associated with the causes of action asserted in this Petition apply to the State.

553. In Texas, it is well-settled law that the State in its sovereign capacity, unlike ordinary litigants, is not subject to the defenses of limitations, laches, or estoppel. *State v. Durham*, 860 S.W.2d 63, 67 (Tex. 1993) (estoppel); see *Rey v. Tex.*, No. 07-10-0464-CV, 2011 Tex. App. LEXIS 4472, at \*\*11-12 (Tex. App.—Amarillo Jun. 14, 2011, no pet. h.) (mem. op.) (laches); *Thomas v. State*, 226 S.W.3d 697, 710 (Tex. App.—Corpus Christi 2007, pet. dismiss'd) (limitations); *Brooks v. State*, 91 S.W.3d 36, 39 (Tex. App. —Amarillo 2002, no pet.) (estoppel); *Shields v. State*, 27 S.W.3d 267, 275 (Tex. App.—Austin 2000, no writ).

554. The State is not bound by any statute of limitations unless that statute expressly applies to the State. See *Brown v. Sneed*, 77 Tex. 471, 474, 14 S.W. 248, 251 (Tex. 1890) (“[T]he statute of a State prescribing periods of time within which rights must be asserted are held not to embrace the State itself unless expressly designated.”)

555. Given the absence of any language expressly applying the Texas DTPA limitations period or the limitations period applicable to unjust enrichment or civil conspiracy to the State, no limitations periods apply to the State’s causes of action asserted in this Petition. See, e.g., *Molano v. State*, 2011 Tex. App. LEXIS 6612, \*10 (Tex. App.—Corpus Christi 2011, pet denied) (Texas DTPA limitations period does not apply to the State).

## VI. CLAIMS FOR RELIEF

### FIRST CAUSE OF ACTION

**Texas Deceptive Trades Practices-Consumer Protection Act**  
**TEX. BUS. & COMM. CODE §§ 17.41 *et. seq.* (“DTPA”)**  
**(Against All Defendants)**

556. The State re-alleges and incorporates herein by reference each of the allegations contained in the preceding paragraphs.

557. The State may bring an action against a person when it has reason to believe the person is engaging in an act or practice declared unlawful under the DTPA. TEX. BUS. & COM. CODE § 17.47(a).

558. The DTPA declares unlawful any false, misleading, or deceptive acts in the conduct of trade and commerce.

559. Defendants are “persons” as defined by the. TEX. BUS. & COMM. CODE § 17.45(3).

560. At all times, Defendants and their agents have engaged in conduct constituting “trade” and “commerce,” as defined in § 17.45(6) of the DTPA.

561. All conditions precedent to filing this DTPA claims have been performed or have occurred.

562. By engaging in the Insulin Pricing Scheme, as described herein, Defendants have committed unlawful acts in the conduct of trade or commerce in violation of the DTPA, including but not limited to the broad prohibitions of TEX. BUS. & COMM. CODE § 17.46(a), as well as:

- a. Representing that goods or services have characteristics, uses, and/or benefits that they do not have. TEX. BUS. & COMM. CODE § 17.46(b)(5). In particular, the Manufacturer Defendants:

- i. Misrepresented that their published list prices had the characteristic of being legal prices, and reasonably related to their net prices. In particular:
  - A characteristic of every commodity in Texas's economy is its price, which is represented by every seller to every buyer that the product being sold is being sold at a legal, competitive price.
  - In furtherance of the Insulin Pricing Scheme, at least once a year for each year during the relevant time period, the Manufacturers reported and published artificially inflated list prices.
  - Because of the Insulin Pricing Scheme, the Manufacturers list price has become so untethered from the actual, net price realized by Defendants to constitute a false price.
  - The Manufacturers know that their artificially inflated, false list prices are used to set the price paid by diabetics and payors for the drugs they need to stay alive.
  - By reporting and publishing their artificially inflated, false list prices, the Manufacturers represented that the list prices were legal prices and were reasonably related to the net prices for the at-issue drugs.
  - At no point did the Manufacturers reveal that the list prices they reported and published associated with the lifesaving diabetic treatments at issue herein were not related to competitive forces or fair market value.
  - Manufacturer Defendants could have reported and published prices that were accurate and true prices, and which reflected their net prices, but they failed to do so and concealed that information in furtherance of and in order to conceal the Insulin Pricing Scheme.
- ii. Misrepresented that their price increases for the at-issue drugs were driven by research and development and benefited diabetics, payors, and the healthcare system, and concealed the true reasons for the increases.
- iii. The PBM Defendants:

- Misrepresented that their formulary construction and exclusions lower the cost of the at-issue drugs and promote diabetic health;
  - Misrepresented that the Manufacturer Payments they receive lower the cost of the at-issue drugs;
  - Concealed and retained the Manufacturer Payments they receive for the at-issue drugs;
  - Misrepresented that their formulary decisions were evidence and/or value based decisions;
  - Misrepresented that their relationships with their affiliated mail order and retail pharmacies (including CVS Pharmacy) and rebate aggregator entities lower the cost of the at-issue drugs and promote patient health;
  - Misrepresented and concealed the reasons behind the price increases for the at-issue drugs;
  - Misrepresented the amount of “savings” that they generate for their clients, patients, and the healthcare system.
- b. Making false or misleading statements of fact concerning the reason for, existence of, or amount of price reductions. TEX. BUS. & COMM. CODE § 17.46(b)(11). In particular, Defendants:
- i. Misrepresented that formulary construction and exclusions lowers the cost of the at-issue drugs and promotes diabetic health;
  - ii. Misrepresented that Manufacturer Payments lower the cost of diabetic drugs;
  - iii. Concealed the amount of Manufacturer Payments exchanged and retained;
  - iv. Misrepresented that the PBMs’ relationships with their affiliated mail order and retail pharmacies (including CVS Pharmacy) and rebate aggregator entities lower the cost of the at-issue drugs;
  - v. Misrepresented and concealed the reasons behind the price increases for the at-issue drugs; and



- vi. Misrepresented the amount of “savings” that they generate for their clients, patients, and the healthcare system.
- c. Failing to disclose information concerning the at-issue drugs, formularies, and Manufacturer Payments which was known by Defendants at the time of the transaction and such failure to disclose such information was intended to induce the consumer into a transaction into which the consumer would not have entered had the information been disclosed. TEX. BUS. & COMM. CODE § 17.46(b)(24). In particular, Defendants:
- i. Failed to disclose that the cost share payments made by insured consumers for the at-issue drugs are tied to inflated list prices rather than the actual prices paid by entities in the pharmaceutical system;
  - ii. Failed to disclose and concealed that the PBMs are excluding lower priced diabetic drugs from their formularies to drive up Defendants’ profits;
  - iii. Failed to disclose and concealed that the Manufacturer Payments that the Manufacturers pay to the PBM Defendants have the intent and effect of foreclosing diabetics’ access to lower priced drugs;
  - iv. Failed to disclose and concealed that the PBMs are utilizing rebate aggregators to rename, obfuscate, and retain Manufacturer Payments;
  - v. Failed to disclose and concealed that Defendants financially benefit from preferring and/or excluding certain diabetes drugs on their formularies; and
  - vi. Failing to disclose and concealing that PBM formulary preferences and exclusions are not based on the best interests of their clients and/or diabetics.

563. Defendants’ representations are false, and at all relevant times Defendants knew they were false.

564. Defendants continue to make these misrepresentations and publish prices generated by the Insulin Pricing Scheme; Texas diabetics continue to purchase

diabetes medications at Defendants' prices as a result of the ongoing Insulin Pricing Scheme.

565. At all times relevant hereto, Defendants affirmatively withheld the truth from diabetics, payors, and the State, even though Defendants knew that diabetics and payors intended to pay the lowest possible price for diabetes medications and expected to pay a legal, competitive price that resulted from transparent market forces.

566. Defendants' conduct also took advantage of the lack of knowledge, ability, experience, or capacity of diabetics and payors to a grossly unconscionable degree to the detriment of diabetics and payors. Defendants' conduct egregiously drove up the prices for the at-issue drugs and foreclosed diabetics access to lower priced diabetes medications. Texas diabetics had no way of avoiding the Insulin Pricing Scheme because they need the at-issue drugs to stay alive and Defendants control which drugs Texas diabetics had access to and at what price.

567. Texas diabetics and payors also had no way of discerning that Defendants were engaging in the Insulin Pricing Scheme because Defendants possessed exclusive knowledge regarding the nature of their formulary construction, Manufacturer Payment negotiation and pricing of diabetes medications; intentionally concealed the foregoing from the public, their clients, and diabetics; and made purposefully incomplete or false representations about the Insulin Pricing Scheme.

568. As a result of Defendants' conduct in violation of the DTPA, Texas diabetics and payors sustained substantial health and economic damages, including

but not limited to paying excessive and inflated prices for diabetes medications described herein every time they paid for an at-issue drug.

569. Defendants' unlawful acts and practices in violation of the DTPA were calculated to acquire and deprive money from Texas diabetics who were 65 years of age or older (in addition to all other diabetics) and thus Defendants are liable for an additional amount up to \$250,000. TEX. BUS. & COM. CODE § 17.47(c)(2).

570. In committing the above and foregoing violations of the DTPA, Defendants are directly and jointly and severally liable for all equitable relief, restitution, damages, penalties and disgorgement for which recovery is sought herein.

## **SECOND CAUSE OF ACTION**

### **Unjust Enrichment (Against All Defendants)**

571. The State re-alleges and incorporates herein by reference each of the allegations contained in the preceding paragraphs.

572. Defendants knowingly, willfully, and intentionally deceived Texas diabetics, and have received a financial windfall from the Insulin Pricing Scheme at the expense of Texas diabetics.

573. Defendants wrongfully secured and retained unjust benefits from Texas diabetics, in the form of amounts paid for diabetes medications and Manufacturer Payments collected based on the artificially inflated prices generated by the Insulin Pricing Scheme.

574. It is inequitable for Defendants to retain these benefits.

575. Defendants knowingly accepted the unjust benefits of misconduct in furtherance of the Insulin Pricing Scheme.

576. Defendants have been enriched by revenue resulting from the Insulin Pricing Scheme while Texas diabetics have been impoverished by Defendants' misconduct. Defendants' enrichment and Texas diabetics' impoverishment are connected.

577. Accordingly, Defendants should not be permitted to retain the proceeds from the benefits conferred upon them by the Insulin Pricing Scheme. The State seeks disgorgement of Defendants' unjustly acquired profits and other monetary benefits resulting from their unlawful conduct and seeks restitution and/or rescission, in an equitable and efficient fashion to be determined by the Court.

578. There is no express contract governing the dispute at-issue, Texas diabetics do not contract with the PBM or the Manufacturer Defendants. The State's claims do not arise out of a contract, but rather are based on the larger unlawful Scheme that drove up the at-issue artificially inflated list prices for all Texas diabetics and payors.

579. As a direct and proximate cause of Defendants' unjust enrichment, as referenced above, Texas diabetics suffered, and continue to suffer, ascertainable losses and damages as specified herein in an amount to be determined at trial.

### **THIRD CAUSE OF ACTION**

#### **Civil Conspiracy (Against All Defendants)**

580. The State re-alleges and incorporates herein by reference each of the allegations contained in the preceding paragraphs.

581. Defendants' conduct described herein constitutes a civil conspiracy and aiding and abetting each other to commit acts and practices declared unlawful under the DTPA and to commit unjust enrichment.

582. To be clear, the State is not alleging a horizontal price fixing conspiracy among the Defendants. Nor is the State alleging that any one Defendant had the monopoly power to overcharge purchasers.

583. Rather the State is alleging that the PBM and Manufacturer Defendants conspired to engage in unlawful practices in violation of the DTPA by constructing formularies, negotiating Manufacturer Payments, and lying about their misconduct in a manner that foreclosed diabetics and payors access to lower priced diabetes medications and drove up the price of the at-issue drugs in order to increase their profits.

584. In addition, the out of pocket payments paid by Texas diabetics to pharmacies—many of which are pharmacies affiliated with PBMs and Defendants in this case—and the reimbursement for the at-issue drugs that Texas payors paid to the PBM Defendants, are unique charges to Texas diabetics and payors and were set by the Defendants and based on the inflated list prices generated by the Insulin Pricing Scheme. These payments are not pass through overcharges.

585. The State alleges both direct agreements and circumstantial evidence demonstrating Defendants' conspiracy. In addition to the direct agreements between the Manufacturers and PBMs for formulary placement and Manufacturer Payments, as well as the agreements between the PBMs and their affiliated rebate aggregator and pharmacy entities, the following circumstantial evidence demonstrates the Defendants' concerted activity:

- a. Defendants coordinated at least twice a year PCMA conferences, which included private exchanges and meetings that appear to be focused on developing and maintaining the Insulin Pricing Scheme, which all Manufacturers and PBM Defendants attended;
- b. Defendants' refusal to disclose the details of their pricing structures, agreements and sales figures in order maintain the secrecy of their Scheme;
- c. Numerous ongoing government investigations, hearings and inquiries have targeted the collusion between Defendants related to the at-issue drugs, including:
  - i. In 2016, the U.S. Attorney's Office for the Southern District of New York issued a CID for information related to the Defendants' conduct involving insulin prices;<sup>16</sup>
  - ii. In 2016, Defendants received civil investigative demands from the State of Washington, in conjunction with the Attorney Generals for California, Florida and Minnesota, related to their role in increasing insulin prices;<sup>17</sup>
  - iii. In 2017, Manufacturers received civil investigation demands from the States of Minnesota, California and Florida related to the pricing of their insulin products and their relationships with the PBMs;
  - iv. In April 2019, U.S Congress held a hearing on the Insulin Pricing Scheme before the Senate Financing Committee in which each Defendant testified;

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<sup>16</sup> <https://kffhealthnews.org/news/timeline-insulin-market-under-scrutiny/>

<sup>17</sup> *Id.*

- v. The Senate Finance Committee’s two-year probe into the Insulin Pricing Scheme that resulted in the January 2021 Senate Insulin Report;
- vi. A December 10, 2021 Congressional Report prepared by the House Committee on Oversight and Reform Minority Staff titled “A View from Congress: Role of Pharmacy Benefit Managers in Pharmaceutical Markets” that concluded:
  - Manufacturers raise their prices due to PBMs;
  - PBMs’ retail and mail order pharmacies create conflicts of interest, hurt competition and distort the market;
  - PBMs’ practices impact patient health; and
  - PBMs use their market leverage to increase their profits, not reduce costs for consumers;
- vii. In June 2022, the FTC announced it would investigate the PBM Defendants (and later, their affiliated rebate aggregators) including related to the impact of rebates and fees from drug manufacturers on formulary design and the costs of prescription drugs to payers and patients;
- viii. The 2023 Senate Hearing;
- ix. The 2024 House Committee PBM Report;
- x. The NYT PBM Investigation; and
- xi. The FTC Interim PBM Report.

586. As a direct result of the overt acts taken in furtherance of Defendants’ conspiracy, Texas diabetics have suffered damages in an amount to be proven at trial. Defendants are all jointly and severally liable for the actions taken in furtherance of their joint conduct.

## **VII. JURY DEMAND**

The State respectfully requests a trial by jury on all issues so triable.

### VIII. PRAYER FOR RELIEF

WHEREFORE, PREMISES CONSIDERED, the State of Texas, *ex rel.* Ken Paxton, Attorney General, prays for entry of judgment against the Defendants, individually, and jointly and severally, for all the relief requested herein and to which the State may otherwise be entitled, specifically, but without limitation, to-wit:

- A. The Court enter an order and judgment against Defendants and in favor of the State for each violation alleged in this Petition;
- B. Find that Defendants' acts and practices alleged herein are violations of the Texas DTPA and that Defendants' conduct breached and violated the statutory and common law causes of action alleged herein;
- C. Issue a permanent injunction prohibiting Defendants from engaging in any violations of the Texas DTPA;
- D. Require Defendants to pay all restitution and other equitable relief that may be owed to Texas diabetics affected by Defendants' unlawful acts and practices;
- E. Impose civil penalties to be paid to the State by Defendants for each violation of the Texas DTPA.
- F. Impose additional penalties on Defendants' unlawful acts and practices given that they were calculated to acquire and deprive money from Texas diabetics who were 65 years of age or older. TEX. BUS. & COM. CODE § 17.47(c)(2).



- G. Require Defendants to pay all of the State's costs in this investigation and litigation, including, but not limited to, expert witness fees, attorney's fees and costs;
- H. Be awarded damages for Defendants' violation of Texas statutory and common law;
- I. Be awarded pre-and post-judgment interest as provided by law, and that such interest be awarded at the highest legal rate from and after the date of service of the Petition; and
- J. Be awarded such other, further and different relief as the case may require and the Court may deem just and proper under the circumstances.

RESPECTFULLY SUBMITTED this the 3rd day of October 2024.

**THE STATE OF TEXAS, BY KEN PAXTON,  
ATTORNEY GENERAL**

KEN PAXTON  
Attorney General

/s/ James R. Lloyd

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