

THE WALL STREET TRANSCRIPT

Questioning Market Leaders For Long Term Investors

MICHAEL CARDILLO - HEALTH ADVOCATE

CEO Interview - published 03/18/2005

MICHAEL CARDILLO is an experienced executive who has a proven results-oriented record operating large complex organizations. He was at the forefront of the healthcare industry during the past fifteen years, helping to build cost-effective and quality solutions. During his career, Cardillo has demonstrated a vision for developing opportunities for profitable growth and identifying new areas for leading-edge investments. Cardillo served as the President of Aetna's health and employee-related benefits company following the merger of Aetna and U.S. Healthcare in April 1996 until his retirement from the company in May 2000. He was responsible for managing a \$20 billion budget and helped to build Aetna U.S. Healthcare into the nation's largest healthcare company providing a range of medical, dental, pharmacy, group life and disability plans for 29 million Americans. Cardillo recognized early on the critical importance of information, technology and the Internet and led the company's transformation in the e.health world. Before the merger with Aetna, he served for ten years with U.S. Healthcare in several top executive level positions including Co-president and, earlier, Executive Vice President and Chief Marketing Officer. Cardillo was responsible for expanding and growing the company into one of the nation's leading and financially successful managed care companies making it an attractive acquisition candidate. Previously, Cardillo worked at the Xerox Corporation for 17 years and held a range of senior level national and regional sales, marketing and operations positions. Cardillo received an M.B.A. from Rider University and a B.A. in economics from Rutgers University where he was a Henry Rutgers Scholar.

Sector - Health services

TWST: What is Health Advocate?

Mr. Cardillo: Health Advocate was a company founded in 2001 by myself and four other executives in the healthcare industry. The basic objective of Health Advocate is to help people better navigate the complexities of the nation's health care and insurance system in a world that is very busy and that often takes some extra time to help people when it matters most. We recognize that taking time and making an investment in people would pay enormous dividends to our clients, and that is the premise of our business model. It really is meant to help individuals work through difficulties that they might encounter navigating the healthcare system. While it is a very basic premise it also has very powerful implications. We help people when they need help the most. An important consequence of our work relates to saving money and time for both the sponsoring organization and the employees who use our service. Health Advocate has resonated very strongly in the marketplace, and that's usually the best gauge of, say, the reception of a business model. In the three short years that we have been in business, we currently serve over 3 million members across the country. It has been somewhat unique in the sense that there hasn't been a service like this in the industry, and therefore, I think it has resonated extremely well across all segments of the marketplace. We have 700+ plan sponsors who offer our service to their employees or members. Our client base includes large Fortune 1000 employers, local and regional employers such as banks, law firms, colleges and universities, governmental bodies and even small employers with fewer than 10 people. We also have

unions, associations, insurance carriers, and third party administrators who embed our service as a benefit for their membership. So our service really meets the needs of a quite diverse group of organizations throughout the nation.

TWST: How do you go about building your membership? How do prospective clients find out about Health Advocate?

Mr. Cardillo: We are a multi-faceted sales and marketing program that targets a wide range of prospective plan sponsors including employers, unions, insurance carriers, third-party administrators, etc. We employ two primary channels of distribution. First we do have our own direct sales force. So this is obviously one avenue that we use to reach prospective clients. Second, we have also developed partnerships with brokers and consultants across the country that provide us another distribution opportunity. I would also emphasize another important area that relates to our public recognition. Health Advocate has received considerable news media coverage on television, radio, newspaper and other publications as well as other 3rd party recognition from satisfied customers. This widespread exposure has helped in letting prospective clients and others know about our service. Finally, when you talk about building membership, we must also discuss the value of our service. Our rapid growth - we doubled our size in 2004 - is a reflection of several important factors worth mentioning. First, we have achieved remarkable results helping people resolve problems. We handle many high profile cases that garner considerable attention on a human dimension. Second, our work generates real medical cost savings for the plan sponsor and the affected employee. Third, our work produces tangible productivity savings for the plan sponsor and the member since our staff does the legwork freeing up valuable resources. Our studies indicate that we generally provide greater than a 3 to 1 return on a sponsors investment in our service.

TWST: What are the specific services that members receive?

Mr. Cardillo: It's very broad in the sense that when we first formed the company, we tried not to have limitations in the sense of we only do A, B, or C, but rather it relates to health care and that within health care is defined as medical, pharmacy, dental, etc. It could be an administrative issue or a clinical issue; we take all of that and really try not to say no. Our objective is to be very receptive to individuals' needs and not to have them put into silos of we do this and we do that. So literally we don't say no when someone calls us with those issues. We look for ways to help them with the problems they bring to us. Another aspect of our service that is quite unique relates to our extended family eligibility coverage. In addition to the subscriber and the spouse and dependent children, we also include parents and parents-in-law. This expanded coverage is quite important because many times when individuals are dealing with health care they are also dealing with their parents' health care. So our extended family definition - that is, the employee, spouse, and children, and the employee's parents and parents-in-law - has played very nicely in the marketplace because many times we are all handling the needs of our parents. Additionally as eldercare issues pervade the workplace and affect productivity, our service is welcomed by employers as a source of valued support. As far as the actual service, it's very clear and concise, easy to use and access. A member calls our toll-free 800# and typically speaks to a registered nurse. First, we collect pertinent background information from the member, whether it has to do with an administrative or a clinical issue. We also have the member sign an Authorization Form giving us permission to work on their behalf. All of the information we collect is kept in the strictest of confidence and fully complies with the federal privacy law known as HIPAA. We then take that problem from the member and allow them to return to work and their busy life. We don't hand back the issue to the member in a sense of telling them, "Do this or do that." We really take the problem from them, and in turn, we begin

working on it internally. We have a number of people obviously who are supporting the staff, whether they are individuals who are specialists in billing, or a group of medical directors who help walk through each of these issues. The member always deals with the same individual -their "Personal Health Advocate" - until their issue is resolved ensuring that there is continuity of contact between our staff and the member. Generally, we get back to the member pretty quickly letting them know how we resolved the case. For cases that take a little longer to resolve, we keep the member posted on the status of their case.

TWST: What's the agenda for Health Advocate? What are your priorities for the next 12-months? What would make that time frame a success?

Mr. Cardillo: Right now, our focus is to continue to grow in size and in scope. We've been very blessed in the sense of the reception of the service, but also in the feedback from the marketplace. So our immediate goal, obviously, is to continue growing in the marketplace and increasing our base and delivering what we believe is a very unique service in a very complex marketplace.

TWST: What has been the funding history with Health Advocate? Was it a true bootstrap operation by the five founders?

Mr. Cardillo: Yes. My partners and I, the five founders, initially funded the company with our own money. About a year and a half after we formed the company, we went out with a private placement offering essentially directed to friends and family to help raise additional capital as well as to give people who helped us an opportunity to invest in the company. We are currently positive cash flow, and we'll continue that way.

TWST: What do you see as competition? Are there others out there trying to provide these services and address this audience? Do they do it in the same or a different manner?

Mr. Cardillo: I say that our service is still quite unique. By that I mean the breadth and scope of what we do. Additionally, we have built a very sophisticated infrastructure supported by a strong team of clinical and administrative experts which also further differentiates our company. There are other players who I will say have entered the market that do some things that we do, but nothing quite at the level we do because we do both the clinical and the administrative side. But there is some competition that is emerging. Also, if you go back to when we started at the beginning of 2001, the advocacy trend was really non-existent in many respects. We feel that we've helped strengthen that trend in health advocacy, and that competition is good because it validates the very nature of the business model that we undertook three and a half years ago. The other aspect that I would highlight is that we really are not antagonistic to any constituent in the healthcare industry. Our only objective is to help members and to work very well with providers, with insurance carriers, and employers. We sort of fill a void when someone reaches a difficult situation and needs some additional assistance. I believe that you will see more and more in the healthcare marketplace defined by advocacy.

TWST: What is your outlook for the healthcare market as you term it? What does that do as far as setting goals or influencing your own strategies at Health Advocate?

Mr. Cardillo: One of the reasons we started the company, going back three and a half years ago, is that when we looked out, we clearly saw that the individual consumer was going to be taking more responsibility for their health care, both as it relates to financial aspects of it

and having information to be a better consumer of services. While this trend takes on many different forms, today it is widely referred to as "consumer directed healthcare." And it's not something that you'd sort of turn around one day and say, "Okay, you now have responsibility of probably the most important thing in your life, which is your health care." We saw that there was a need to bridge this transition to more of a consumer model, and that's sort of the model that we tried to develop. As people become more responsible, they also need more assistance as they are given more responsibility to navigate the healthcare system. That, we believe, is going to be the trend that continues. Employers are going to be moving into more consumer-oriented plans and placing more responsibility upon the employees, and in that case, they could bring us aboard as a bridge or "safety net" to help that employee become more knowledgeable and more effective in managing their healthcare and health program.

TWST: What are the growth opportunities for Health Advocate? Can you grow through mergers and acquisitions of other groups? Do you just bring in or add on more services? How do you grow membership?

Mr. Cardillo: If you start from the very basic premise that there are about 280 million Americans, I can clearly come to the conclusion that every American should have Health Advocate. Therefore, I think the growth potential is enormous, and our growth at this point clearly has been organic and that is the way we see it going down the road. One of our challenges is to make the marketplace more aware that we are here. We've been very successful to have a great membership, but clearly one of the great challenges that we face is to have other potential purchasers of our service be aware of us. So our biggest challenge is just making decision-makers cognizant of what we do and how we can help them in their strategic healthcare initiatives.

TWST: Simply put, what would be the Health Advocate brand? What should that brand actually imply or symbolize?

Mr. Cardillo: You could say Health Advocate provides "peace of mind" in the sense that we help sponsoring organizations and their employees and families to better deal with healthcare and related issues. As a brand, this is enormously powerful since we are helping people with sensitive issues, often during difficult times. As our service helps to enhance our members overall healthcare experience we are building a foundation of trust and an enduring relationship with our customers. We are earning our customers' loyalty and respect by meeting their most basic needs. This is what all great brands strive to accomplish.

TWST: Would you care to include a little about your management team, the leadership and credentials that you have on board today?

Mr. Cardillo: Our founding team comes with a strong set of complimentary skills and many years of experience. My partners are Abbie Leibowitz, M.D., David Rocchino, Martin Rosen, and Tom Masci. Abbie, a board-certified pediatrician by training, is EVP and Chief Medical Officer. Previously he was the Chief Medical Officer at Aetna U.S. Healthcare and before that at U.S. Healthcare. David is EVP and Chief Sales Officer. He was a senior sales person at U.S. Healthcare and senior marketing person at Aetna U.S. Healthcare. Marty is EVP and Chief Marketing Officer. He was the Head of Communications for Aetna U.S. Healthcare and has a broad background in marketing, advertising and public relations. Tom is EVP and our Chief Financial Officer. He was a senior financial executive at U.S. Healthcare. One other person I would mention is Kelly Johnston, who is our COO. She brings with her a wealth of background in the administrative, claims and nursing areas from both U.S. Healthcare and

Aetna U.S. Healthcare. The first four people are the founders, along with myself, and Kelly Johnston is also a key part of our team. We have also been fortunate to recruit a very talented group of professionals who know the "ins-and-outs" of the healthcare and insurance worlds. They also possess a deep sense of caring about helping our members when they call with a problem. This level of empathy is quite important as we provide our personalized high-touch service.

TWST: Thank you. (DWA)