

August 4, 2006

Daniel P. Garcia, JD
Senior Vice President and Chief Compliance Officer
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Dear Mr. Garcia:

I write to you directly with the hope and expectation that you will address a number of important concerns that are seriously impacting our organization, concerns which have gone effectively unaddressed by our senior leadership, including George Halvorson.

As you may be aware, our information technology organization is running severely over budget. While such overruns are not unusual at KP-IT, concerns about future revenue have forced action. Even after finally identifying as much as \$86 million in waste, Cliff Dodd and Dave Watson expect KP-IT will still finish the year \$110 million or more over its \$1.396 billion budget. KP-IT expects \$1.547 billion to be budgeted for 2007.

The financial mismanagement at KP-IT is having a pervasive impact across our organization. Last month, Cynthia Finter, head of Health Plan in the Northwest, was forced to resign as a result of "botched billings, computer problems, and rapid growth," according to the Portland Business Journal. I expect that other causes contributed to Ms. Finter's departure, but our organizational structure gives Mr. Halvorson and Mr. Dodd final responsibility for "botched billings" and "computer problems." I imagine those issues that lead to Ms. Finter leaving our organization are the same issues Southern California and other regions are coping with as a result of the HealthConnect implementation problems.

While the negative financial impact of Mr. Halvorson and Mr. Dodd's decisions is significant and consequential, I believe the short and long term ramifications will be grave. The selection of Epic Systems as our primary vendor for HealthConnect has proven to be disastrous. Deployments across each of our regions have faced severe scalability and reliability issues, and Epic has proven to be poorly adaptable to the structure and needs of our organization. HealthConnect is now years behind schedule, with completion not expected until 2009 or later.

Even well-researched and well-planned initiatives of the size and scope of HealthConnect can fail to meet

deadlines and expectations. Unfortunately, however, many of the issues we are facing with HealthConnect were recognized years ago by an internal group which was evaluating our electronic medical record software options. The selection of Epic by Mr. Halvorson and Mr. Dodd ignored the preliminary findings of that internal group and precluded their final report. The group's preliminary evaluation pointed out the many inadequacies of Epic's platform, including the scalability, reliability, and adaptability concerns with which our organization is now grappling.

The issues with finances and accounting, and responsibility and accountability at KP-IT and the ongoing problems with the reliability, scalability, and adaptability of Epic's software in our HealthConnect project are merely the most internally visible setbacks our organization is currently facing as a result of Mr. Halvorson and Mr. Dodd's leadership. Regrettably, the difficulties are varied and numerous:

- We continue to be unable to fully meet market demands for consumer-directed healthcare products (also partially the result of weaknesses relating to the HealthConnect project, and indicative of a lack of strategy and coordination on the part of Robert Venema and Thomas Meier).
- We have lost considerable productivity as a result of the misguided and now reversed selection of Dell as our primary vendor for desktop hardware. Perhaps worse yet, we missed an opportunity to improve our desktop infrastructure by simply retreating to HP instead of proactively addressing the problems inherent in our current deployment strategy.
- We are dangerously vulnerable to legal and financial liability as a result of our poor internal strategy, control, policies, procedures, and practices regarding software licensing. Our desktop infrastructure would normally correlate to more than \$50 million in software licenses. I regret that a significant portion of our desktops appear to be improperly licensed, and I fear that we have little ability to ascertain which of those machines are in compliance. This situation is, in fact, deteriorating as a result of KP-IT's mid-year decision to begin offloading software licensing expenses to Health Plan and the Medical Groups.
- Our organization continues to be dependent on several incompatible messaging platforms, leading to long delays in internal email delivery, and significantly impairing collaboration within and across departments, medical centers, service areas, and regions. KP-IT has continued to ignore this situation, and has pressed ahead (despite significant physician and employee resistance) with the deployment of Lotus Notes, regardless of that platform's high cost and poor effectiveness given our adoption of Epic as the core for HealthConnect.

These issues are not insignificant and they are not excusable. Mr. Halvorson and Mr. Dodd have led Kaiser Permanente down the wrong path. Their poor decisions with regard to information technology are placing us further and further behind our competitors in the marketplace, and are positioning us for potentially

catastrophic failure. Kaiser Permanente needs to be a real leader in healthcare information technology, and today, we simply are not.

Without intervention, our place as the leader in American healthcare is in jeopardy. Mr. Halvorson and Mr. Dodd have both shared brilliant ideas with our organization, and they have both instituted organizational changes which could serve as a foundation for future growth. Where we are today, however, we are extremely vulnerable to even minute changes in the marketplace and we are subject to regular information technology systems failures, which have adversely impacted our ability to care for our members. We cannot continue to depend on Mr. Halvorson or Mr. Dodd to address these problems. They have failed too many times before, and the continuing cost of their failure is too great to ignore.

I implore you to take appropriate action to help our organization move forward.

Sincerely,

Justen Deal

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