

September 18, 2006

Christine K. Cassel, MD, MACP
Thomas W. Chapman, Ed.D.
Daniel P. Garcia, JD
William R. Graber

J. Eugene Grigsby, III, Ph.D.
Judith A. Johansen, JD
Kim J. Kaiser
Philip A. Marineau

Edward Pei
J. Neal Purcell
Cynthia Ann Telles, Ph.D.
Sandra P. Thompkins

Members of the Board of Directors

Kaiser Foundation Health Plan, Inc. and Kaiser Foundation Hospitals

care of Victoria Zatkan

One Kaiser Plaza, Floor 26B

Oakland, California 94612-3600

via facsimile to 510 271-6493

Dear Drs. Cassel, Chapman, Grigsby, and Telles;
Messrs. Garcia, Graber, Kaiser, Marineau, Pei, and Purcell; and
Meses. Johansen and Thompkins:

On August 4 and September 8, I wrote to Daniel Garcia, a Health Plan and Hospitals director and our chief compliance officer, regarding the serious financial situation facing Kaiser Permanente. Over the next two years, we expect to see substantial changes in our revenue mix, primarily as the result of two factors: reductions in dues as members shift to higher-deductible products and accelerated reductions in payments being introduced by the Centers for Medicare and Medicaid Services. I wrote to Mr. Garcia, and each of you, the directors of the Health Plan and Hospitals Boards, to urge you to take action to correct a number of information technology-related mistakes, missteps which are severely hindering our ability to cope with these financial challenges.

To date, I have received no formal response from the Board. It is my understanding that, during your meeting last week, the Board decided to delay action until Mr. Garcia recommends otherwise. In my letters to each of you in August, I referenced our articles of incorporation, which assert that "all corporate powers shall be exercised by or under the authority of the Board of Directors, and the Board shall control the business and affairs of the corporation." You each have the ability and responsibility to protect our organization. That is not a responsibility which can be delegated to Mr. Garcia or members of his staff.

I have a number of serious concerns with regard to the competency and objectivity of the investigation that Mr.

Garcia's staff is conducting. At the end of the day, though, the compliance investigation is a peripheral issue that is only serving to blur the primary concern: correcting our mistakes so that we can begin to restore financial integrity and responsibility to our organization.

More explicitly, the decisions made by George Halvorson and J. Clifford Dodd since their joining this organization have fundamentally undermined our financial and market positions. Within two years, we will face the risk of a financial meltdown that would change the face of Kaiser Permanente as we know it. Instead of irresponsible cuts to our staffing, benefits, and care, we must take immediate action to bring efficiency and responsibility to our information technology operations. Many of the technology vendors and platforms which have been chosen and approved by Mr. Halvorson and Mr. Dodd are unreliable and costly. Unfortunately, these questions of financial responsibility and business integrity are not new:

- Mr. Halvorson left the health plan he previously led, HealthPartners, in the midst of what, we would later learn, was an audit by the Minnesota Attorney General. The Attorney General uncovered years of financial irresponsibility and waste, and ultimately concluded that the HealthPartners Board of Directors provided inadequate oversight of Mr. Halvorson and other HealthPartners executives.
- Mr. Dodd "invited" and oversaw the selection of Tanning Technology to "help ensure that the technical performance of Kaiser Permanente's Automated Medical Record (AMR) initiative meets the goals of the organization." Mr. Dodd later resigned as a director of that company "to avoid even the appearance of conflict."

Our internal projections show a real risk of our organization facing a severe financial crisis within the next two years. Under California Health and Safety Code sections 1349 and 1393, of the Knox-Keene Health Care Service Plan Act of 1975, each of you and I have a responsibility to protect the finances of the Health Plan, and we each have personal liability if we do not. Please take concrete, proactive, and effective steps to protect the financial stability of our organization. Please advise me of your taking or immediate intention to take such actions, via facsimile, no later than 4:00 p.m. Pacific Daylight Time on Friday, September 22, 2006. Please send the transmission to 323 783-7101, and confirm that I am in receipt of your response by voice to 323 783-7077.

Sincerely,

Justen Deal