

September 25, 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
One Kaiser Plaza, Floor 26B
Oakland, California 94612-3600

via facsimile to 510 271-6617

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

On September 18, I wrote to each of you directly, to ask you to take action to deal with the financial challenges our organization faces over the next two years. In that letter, I continued to express my concerns with the questionable leadership of George Halvorson and J. Clifford Dodd. I also expressed my concern that the Board had not yet done more to protect the financial stability and integrity of Kaiser Permanente.

In my letter, I asked that the Board "take concrete, proactive, and effective steps to protect the financial stability of our organization" and to "please advise me of your taking or immediate intention to take such actions."

On September 22, I received a response from our outside counsel specializing in wrongful termination, Deborah J. Broyles. Ms. Broyles stated that an "independent compliance investigation" is being "aptly handled" by Daniel Garcia and his office. Ms. Broyles qualified that investigation as comprising only "KP-IT operations issues," apparently excluding questions of impropriety by senior management, and apparently ignoring concerns raised relating to the impartiality of the investigation Mr. Garcia's office is conducting.

Mr. Garcia served as chair of the Board committee that ultimately hired Mr. Halvorson. The extensive and ongoing audit of Mr. Halvorson's business and financial decisions at HealthPartners should have precluded his leading our organization. If Mr. Garcia knew of that fact, it was a tremendous mistake for the search committee

to have continued consideration of Mr. Halvorson. If Mr. Garcia was not aware of the Minnesota Attorney General's ongoing investigation, it was a significant oversight in his committee's work. In either case, Ms. Broyles' insistence that Mr. Garcia is conducting an "apt" and "independent" investigation is inaccurate.

As none of you, with the exception of Mr. Garcia and Thomas Chapman, served on the Board when it selected Mr. Halvorson to succeed David Lawrence, it is understandable that you might be unaware of Mr. Garcia's principal role in the hiring of Mr. Halvorson. Nevertheless, in my previous letter to you, I expressed my concern that the investigation was not being conducted objectively or competently. That the Board would continue to rely on such a fundamentally flawed investigation of such important issues is startling.

Given that the Board has not provided any indication that it is addressing or intends to address our financial situation, I am compelled to take further action, under California Health and Safety Code sections 1349 and 1393, of the Knox-Keene Health Care Service Plan Act of 1975. Accordingly, I have spoken with Kevin Donahue, Deputy Director of the Department of Managed Health Care. I am providing him and members of his staff with our internal projections showing destabilizing losses over the next two fiscal years. I am also providing him with documentation supporting those projections.

With regard to potential improprieties by senior members of management, I am providing Deputy Attorney General Kelvin Gong with a copy of the report from Minnesota Attorney General Mike Hatch's office, which uncovered serious financial lapses and a lack of oversight by the board of directors at Mr. Halvorson's previous employer, HealthPartners, Inc. of Bloomington, Minnesota. I am also asking Mr. Gong to look closely at our vendor relationships with Epic Systems Corporation, of Verona, Wisconsin and Tanning Technology Corporation, previously of Denver, Colorado, including, specifically, any relationship between those vendors and Mr. Halvorson and Mr. Dodd, respectively.

It is my hope and expectation that financial integrity can be quickly restored to our organization. It is also my hope that the Board will be restructured to ensure that it can become a responsible and accountable governing body for the Health Plan and Hospitals, a role it is simply not fulfilling today.

Sincerely,

Justen Deal

cc: Deborah J. Broyles, via facsimile to 415 369-8621