

September 8, 2006

Daniel P. Garcia, JD
Senior Vice President and Chief Compliance Officer
Kaiser Foundation Health Plan, Inc. and Kaiser Foundation Hospitals
One Kaiser Plaza, Floor 26B
Oakland, California 94612-3600

via facsimile to 510 267-2133

Dear Mr. Garcia:

On August 4, I sent to you a letter which raised a number of important issues, primarily relating to decisions made or approved by our chief executive officer, George Halvorson and his chief information officer, J. Clifford Dodd. I expressed to you, my deep concern regarding the financial and operational impact of these decisions on Kaiser Permanente.

I have not yet received a response from you addressing those concerns, neither in your capacity as chief compliance officer, nor in your capacity as a director of Health Plan and Hospitals.

Over two weeks after sending my letter to you, I met for three hours with three investigators from your office. While I found two of your three investigators to be quite professional, I did not feel comfortable that any of the three understood the technical nature of the issues I raised.

This morning, I received, via email, a message from you indicating that it would be "inappropriate" for me to have further "communication with the Board." You also indicated that your staff has yet to gather evidence supporting these important concerns, and that your staff would only be investigating the concerns "which [you or your staff] considered appropriate."

I have shared with your staff my firm belief that my responsibility did not end with a letter. I cannot simply believe that you and your staff are conducting a thorough review of my concerns when, according to you, they have yet to gather any evidence over a month after the issue was first brought to your attention. Further, I cannot accept that you have dismissed some number of my concerns summarily, as you or your staff have deemed them not "appropriate," considering that each issue carries serious liability to our organization.

I believe very strongly in what our organization stands for. The magnitude of our operating income losses over the next two years, however, could undermine our ability to care for our patients, better our communities, and protect our employees. The breadth and depth of these losses could be balanced by reducing waste in and demanding greater efficiency from our information technology operations. Those are important leadership and financial issues which have not been addressed by management, issues for and of which you and your fellow directors have a responsibility to take ownership.

Understanding what missteps brought us to the point of so much waste, and uncovering the roots of those missteps, is also a key process, which obviously falls under the purview of your compliance office. I recognize the importance of the compliance investigation, and I expect it to be a thorough process, but I believe you and your fellow directors must recognize that correcting our course is, by far, our most urgent and immediate need.

Once again, I implore you to take appropriate action to help our organization.

Sincerely,

Justen Deal

cc: Christine K. Cassel, MD, MACP
Thomas W. Chapman, Ed.D.
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