

Direct dial telephone number: 510-271-6803
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Email: Mark.Zemelman@kp.org

October 27, 2006

Mr. Justen Deal
Kaiser Permanente Los Angeles Medical Center
1515 N. Vermont Ave.
Los Angeles, CA 90027

Dear Mr. Deal:

This responds to the allegations that you made to the Compliance Department of Kaiser Foundation Health Plan, Inc. and Kaiser Foundation Hospitals (collectively, "Kaiser") by letter dated August 4, 2006, and that you elaborated upon in your letters to the Kaiser Board of Directors dated September 18 and September 25, 2006 and through interviews with Compliance Department representatives on August 21 and September 15, 2006.

While not articulated precisely, your allegations appear to fall into two categories:

1. Allegations that decisions to purchase and implement certain software and hardware systems were incorrectly made. More specifically, you appear to be alleging that information available at the time of the decisions should have led to the selection of alternative systems and that the decisions were made due to undisclosed conflicts of interest on the part of two of Kaiser's most senior officers.
2. Allegations that certain software, hardware, and license tracking systems are failing, creating severe financial and legal exposures for Kaiser.

We have conducted a thorough investigation of your allegations. With respect to the first category of allegations, we have found that these decisions were based on appropriate due diligence and were proper exercises of business judgment.

More specifically, our investigation found no evidence indicating that these decisions were influenced by the alleged undisclosed conflicts of interest. You

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should be aware that alleging that specific individuals have acted upon undisclosed conflicts of interest is an extremely serious charge. If you have evidence of such conflicts that you have not provided to us in the above-referenced communications, please provide it to our offices promptly.

With respect to the second category of allegations, our investigation has determined that there is no “disastrous failure” as you have alleged with respect to KP HealthConnect, the implementation of which is proceeding. In the implementation of a new, large and complex system such as KP HealthConnect, various technical problems are likely to arise, but none that you mention were unknown to KP-IT nor were as insurmountable as you imply. Similarly, our investigation found that KP-IT is proceeding in a diligent manner to implement license tracking systems.

We encourage you to bring to the attention of IT problems that you encounter in the course of performing your assigned duties where it appears that you may have identified problems of which KP-IT is unaware or if you have ideas as to solutions that are not currently in development. In general, the appropriate course of action is to bring such problems to the attention of your supervisor, who can determine whether to escalate the issue. However, if you believe that your supervisor cannot address a problem, we refer you to Gangadhar (Madhu) Nutakki, who is one of the senior technical experts with respect to KP HealthConnect. He can be reached through his assistant, Teresa Guizson, at 925-979-7473.

As noted above, please contact me if you have evidence of conflicts of interest or violations of law.

Sincerely,

KAISER FOUNDATION HEALTH PLAN, INC.



Mark Zemelman
Vice-President and Assistant General Counsel