

SCHEDULE O
(Form 990 or 990-EZ)

Department of the Treasury
Internal Revenue Service

Supplemental Information to Form 990 or 990-EZ

Complete to provide information for responses to specific questions on
Form 990 or 990-EZ or to provide any additional information.
▶ Attach to Form 990 or 990-EZ.

OMB No. 1545-0047

2010

Open to Public
Inspection

Name of the organization

GARDENS REGIONAL HOSPITAL & MED. CENTER
DBA TRI-CITY REGIONAL MEDICAL CENTER

Employer identification number
33-0738307

FORM 990, PART VI, SECTION A, LINE 3: AND SCHEDULE L, PART IV: AGREEMENT
WITH MANAGEMENT COMPANY

ON JANUARY 6, 2005, TRI-CITY ENTERED INTO A MANAGEMENT SERVICES AGREEMENT
WITH SOUTH BAY HOSPITAL MANAGEMENT CO. LLC (SOUTH BAY) (MANAGEMENT
AGREEMENT), SETTING FORTH THE TERMS FOR SOUTH BAY TO PROVIDE MANAGEMENT AND
ADMINISTRATIVE SERVICES TO TRI-CITY. SOUTH BAY IS RESPONSIBLE FOR
PROVIDING TRI-CITY WITH KEY PERSONNEL (ALL OF WHOM ARE EMPLOYEES OF SOUTH
BAY). ARTHUR GERRICK, PRESIDENT AND CEO OF TRI-CITY, OWNS, THROUGH SERRANO
MANAGEMENT GROUP, A MINORITY INTEREST IN SOUTH BAY. MR. GERRICK'S DIRECT
AND INDIRECT OWNERSHIP OF SOUTH BAY IS LESS THAN 35%. SOUTH BAY IS AN
ORGANIZATION UNRELATED TO TRI-CITY FOR REPORTING PURPOSES. AMONG THE
DUTIES PERFORMED BY SOUTH BAY FOR THE BENEFIT OF TRI-CITY, PURSUANT TO THE
MANAGEMENT AGREEMENT, ARE THE FOLLOWING:

1. ADVISING TRI-CITY WITH RESPECT TO HUMAN RESOURCES POLICIES AND
PROCEDURES, INCLUDING NEGOTIATING CONTRACTS WITH PHYSICIANS AND MEDICAL
GROUPS OR OTHER TRI-CITY EMPLOYEES ON BEHALF OF TRI-CITY;

2. ENGAGING AS KEY PERSONNEL FOR TRI-CITY THE FOLLOWING:

A. CHIEF EXECUTIVE OFFICER AND PRESIDENT

B. CHIEF OPERATING OFFICER

C. ADMINISTRATOR

D. DIRECTOR OF NURSES

E. SUCH OTHER AND ADDITIONAL PERSONNEL AS DEEMED NECESSARY BY

SOUTH BAY TO CARRY OUT ITS OBLIGATIONS UNDER THE MANAGEMENT AGREEMENT;

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3. PREPARATION FOR APPROVAL BY TRI-CITY'S BOARD OF DIRECTORS: TRI-CITY'S ANNUAL OPERATING BUDGET, CAPITAL EXPENDITURE BUDGET AND CASH FLOW PROJECTIONS;

4. ADMINISTRATION OF ACCOUNTING PROCEDURES AND CONTROLS AND PREPARATION OF MEDICARE AND MEDICAL COST REPORTS AND OTHER MATERIALS AS NEEDED FOR THIRD PARTY REIMBURSEMENT;

5. PREPARATION AND SUBMISSION OF ALL REGULATORY REPORTS AND SUPERVISION OF ALL RESPONSES TO ANY ADJUSTMENTS WITH RESPECT TO REGULATORY REPORTS;

6. BILLING AND COLLECTIONS IN ACCORDANCE WITH TRI-CITY'S CHARGE SCHEDULES AND COLLECTION POLICIES ESTABLISHED BY ITS BOARD OF DIRECTORS;

7. REVIEW AND PAYMENT ON BEHALF OF TRI-CITY OF ITS ACCOUNTS PAYABLE;

8. SUPERVISING THE PREPARATION OF MONTHLY BALANCE SHEETS AND INCOME STATEMENTS FOR TRI-CITY;

9. PREPARATION AND IMPLEMENTATION OF A WRITTEN MANAGEMENT PLAN DESIGNED TO IMPLEMENT THE GOALS AND OBJECTIVES OF TRI-CITY AS ARTICULATED BY ITS BOARD OF DIRECTORS;

10. REVIEW, ADVICE AND NEGOTIATION OF CONTRACTS WITH RESPECT TO EQUIPMENT PURCHASING;

11. FACILITIES MAINTENANCE AND REPAIR SCHEDULING AND RECOMMENDATIONS AND

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REVIEW, ADVICE AND NEGOTIATION OF CONTRACTS WITH RESPECT TO SAME;

12. RECOMMENDATIONS REGARDING INVESTMENT OF EXCESS CASH;

13. ATTENDANCE AT BOARD OF DIRECTORS MEETINGS;

14. MONTHLY REPORTS TO THE BOARD OF DIRECTORS;

15. CONDUCT PERIODIC PROGRAMS ON TOPICS OF INTEREST TO THE BOARD AND SENIOR
MANAGEMENT OF TRI-CITY;

16. ASSIST TRI-CITY'S BOARD OF DIRECTORS IN CREATING POLICIES AND
PROCEDURES IN CONNECTION WITH MEDICAL STAFF ISSUES INCLUDING CREDENTIALING,
MEDICAL STAFF BYLAWS, STATE AND FEDERAL LICENSING AND CERTIFICATION AND
ACCREDITATION;

17. ASSIST TRI-CITY TO MAINTAIN ITS MEDICARE AND MEDICAL PROGRAM
CERTIFICATION, JCAHO (JOINT COMMISSION ON THE ACCREDITATION OF HEALTHCARE
ORGANIZATIONS) ACCREDITATION, AND TAX-EXEMPT STATUS;

18. DEVELOP COMMUNITY AWARENESS CAMPAIGNS, INCLUDING OUTREACH AND HEALTH
PROGRAMS AND OVERSEE TRI-CITY'S PUBLIC RELATIONS EFFORTS; AND

19. ASSIST TRI-CITY TO MAINTAIN AND IMPROVE ITS HOSPITAL INFORMATION
SYSTEMS AND MANAGEMENT INFORMATION SYSTEMS.

UNDER THE MANAGEMENT AGREEMENT, SOUTH BAY IS ENTITLED TO RECEIVE FROM
TRI-CITY A BASE MONTHLY FEE (\$285,000) AND AN ADDITIONAL FEE WHICH HAS

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NEVER BEEN PAID AND WHICH SOUTH BAY HAS WAIVED (MANAGEMENT FEE). SOUTH BAY IS RESPONSIBLE TO PAY ALL SALARIES, COMPENSATION, AND BENEFITS FOR ALL OF TRI-CITY'S KEY PERSONNEL. IN ADDITION, SOUTH BAY IS OBLIGATED TO INDEMNIFY TRI-CITY FOR ALL DAMAGES CAUSED BY SUCH KEY PERSONNEL. THE STRUCTURE AND ECONOMIC TERMS OF THE MANAGEMENT FEE ARE SIMILAR TO THE STRUCTURE AND ECONOMIC TERMS OF THE MANAGEMENT FEE PAID TO AN INDEPENDENT MANAGEMENT COMPANY THAT PREVIOUSLY PROVIDED MANAGEMENT SERVICES TO TRI-CITY FOR THE FIVE (5) YEARS PRECEDING THE EFFECTIVE DATE OF THE MANAGEMENT AGREEMENT.

PURSUANT TO THE REQUEST OF TRI-CITY'S BOARD OF DIRECTORS, THE MANAGEMENT AGREEMENT, INCLUDING THE TERMS OF THE COMPENSATION THEREOF, WAS REVIEWED BY AN INDEPENDENT CONSULTANT, WHO CONDUCTED AN INDEPENDENT APPRAISAL TO DETERMINE IF THE FEES PAYABLE TO SOUTH BAY ARE COMMENSURATE WITH THE FAIR MARKET VALUE OF SERVICES RENDERED BY SOUTH BAY. THE INDEPENDENT APPRAISER REVIEWED, AMONG OTHER RELEVANT DATA, THE MANAGEMENT AGREEMENT, INCLUDING THE SCOPE OF SERVICES PROVIDED BY SOUTH BAY, AND TRI-CITY'S FINANCIAL STATEMENTS. THE INDEPENDENT APPRAISER CONDUCTED A SURVEY OF COMPARABLE MANAGEMENT GROUPS AND CONCLUDED THAT THE BASE MONTHLY FEE CHARGED BY SOUTH BAY IS CUSTOMARY AND REASONABLE FOR THE SCOPE OF HOSPITAL MANAGEMENT SERVICES RENDERED IN THE COMMUNITY SERVED.

FORM 990, PART VI, SECTION A, LINE 5: AND SCHEDULE L, PART I, LINE 1(B):
(DIVERSION OF THE CORPORATION'S ASSETS)

SEE EXPLANATION ON THIS SCHEDULE O, PAGES 44 TO 61.

FORM 990, PART VI, SECTION B, LINE 11: (COPY OF THIS FORM 990 TO ALL BOARD MEMBERS)

A COMPLETE COPY OF THIS FORM 990 IS PROVIDED TO EACH MEMBER OF THE BOARD OF

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DIRECTORS OF TRI-CITY TO REVIEW BEFORE FILING. THE BOARD WAS GIVEN THE
OPPORTUNITY TO ASK QUESTIONS AND SEEK ADDITIONAL INFORMATION BEFORE
APPROVING THE FILING OF THE FORM 990.

FORM 990, PART VI, SECTION B, LINE 12C: (MONITOR AND ENFORCEMENT OF
CONFLICT OF INTEREST POLICY)

TRI-CITY CAREFULLY MONITORS COMPLIANCE WITH ITS CONFLICT OF INTEREST
POLICY, REQUIRING ANNUAL CERTIFICATION AND DISCLOSURES FROM ITS OFFICERS,
DIRECTORS AND KEY EMPLOYEES:

ANNUALLY, ALL OFFICERS AND DIRECTORS AND KEY EMPLOYEES ARE GIVEN A DETAILED
DISCLOSURE QUESTIONNAIRE ELICITING INFORMATION REGARDING RELATIONSHIPS,
TRANSACTIONS OR OTHER CIRCUMSTANCES BY AND AMONG THESE INDIVIDUALS
(INCLUDING FAMILY MEMBERS) AND TRI-CITY WHICH COULD RESULT IN A CONFLICT OF
INTEREST, AND ASKED TO CERTIFY THAT HE OR SHE HAS NO ACTUAL OR POSSIBLE
CONFLICT TO REPORT.

EACH OFFICER, DIRECTOR AND KEY EMPLOYEE IS ASKED TO CERTIFY THAT HE: A)
RECEIVED A COPY OF THE CONFLICT OF INTEREST POLICY; B) READ AND UNDERSTOOD
THE POLICY AND AGREE TO COMPLY WITH THE POLICY; C) UNDERSTANDS THAT IN
ORDER TO MAINTAIN ITS FEDERAL TAX EXEMPTION, TRI-CITY MUST ENGAGE PRIMARILY
IN ACTIVITIES THAT ACCOMPLISH ITS EXEMPT PURPOSES AND NOT ENGAGE IN
ACTIVITIES AND TRANSACTIONS THAT PROVIDE IMPERMISSIBLE BENEFITS TO
INDIVIDUALS OR ENTITIES.

ANNUALLY, EACH OFFICER, DIRECTOR AND KEY EMPLOYEE IS ASKED TO COMPLETE AND
SIGN THE CERTIFICATION AND DISCLOSURE FORM.

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TRI-CITY REVIEWS THE ANNUAL DISCLOSURE FORMS TO IDENTIFY ANY POSSIBLE CONFLICT OF INTEREST. TRI-CITY IS COMMITTED TO FOLLOWING THE PROCEDURES SET FORTH IN ITS WRITTEN CONFLICT OF INTEREST POLICY AND RESTRICTS ANY PERSON WITH A POTENTIAL CONFLICT FROM PARTICIPATING IN ANY DECISION-MAKING AND EXERTING INFLUENCE WITH RESPECT TO ANY TRANSACTION IN WHICH A POTENTIAL CONFLICT OF INTEREST EXISTS.

FORM 990, PART VI, SECTION C, LINE 19: (GOVERNING DOCUMENTS, CONFLICT OF INTEREST POLICY, ETC., AVAILABLE TO THE PUBLIC)
AS REQUIRED BY INTERNAL REVENUE CODE SECTION 6104(D), TRI-CITY'S 990 FORMS AND ALL OTHER DOCUMENTS REQUIRED TO BE MADE AVAILABLE TO THE GENERAL PUBLIC ARE AVAILABLE FOR PUBLIC INSPECTION DURING NORMAL BUSINESS HOURS AT TRI-CITY'S PRINCIPAL BUSINESS OFFICE, OR FOR A NOMINAL CHARGE FOR COPYING COSTS, UPON REQUEST (IN WRITING OR IN PERSON) TO TRI-CITY AT ITS PRINCIPAL BUSINESS OFFICE. IN ADDITION, A COPY OF THIS FORM 990 IS AVAILABLE ON GUIDESTAR.ORG.

FORM 990, PART VI, SECTION A, LINE 9: (FORMER PRESIDENT AND CEO
NAME AND ADDRESS)

ARTHUR J. GERRICK

172 WILD LILAC

IRVINE, CA 92620-2830

FORM 990, PART VI, SECTION B, LINE 15A & 15B: (COMPENSATION POLICIES)
THERE IS NO PROCESS FOR DETERMINING COMPENSATION OF ANY OF THE OFFICERS OR KEY EMPLOYEES DUE TO THE FACT THAT NONE ARE PAID BY TRI-CITY.
TRI-CITY ENGAGES A MANAGEMENT COMPANY FOR ALL HIGH LEVEL MANAGEMENT OF THE ENTITY. TRI-CITY PAYS THE MANAGEMENT FIRM, SOUTH BAY, A SET MONTHLY

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FEE FOR MANAGEMENT. SOUTH BAY IS RESPONSIBLE FOR PROVIDING TRI-CITY WITH KEY PERSONNEL (ALL OF WHOM ARE EMPLOYEES OF SOUTH BAY AND COMPENSATED SOLELY BY SOUTH BAY).

FORM 990, SCHEDULE L, PART I, LINE 1(B): (EXCESS BENEFIT TRANSACTIONS BY ARTHUR J. GERRICK, FORMER PRESIDENT AND CEO) ON FEBRUARY 1, 1997, ARTHUR J. GERRICK BECAME THE PRESIDENT AND CEO OF GARDENS REGIONAL HOSPITAL AND MEDICAL CENTER, A CALIFORNIA NON-PROFIT CORPORATION, DBA TRI-CITY REGIONAL MEDICAL CENTER (THE "HOSPITAL"). FROM AND CONTINUOUSLY AFTER THAT DATE, MR. GERRICK WAS IN A POSITION TO EXERCISE SUBSTANTIAL INFLUENCE OVER THE BUSINESS AND AFFAIRS OF THE HOSPITAL. MR. GERRICK IS THEREFORE A "DISQUALIFIED PERSON" WITHIN THE MEANING OF INTERNAL REVENUE CODE SECTION 4958.

MR. GERRICK ENGAGED IN EXCESS BENEFIT TRANSACTIONS, AND COMMITTED OTHER ACTS OF MISCONDUCT, AS DESCRIBED BELOW.

AS A RESULT, ON NOVEMBER 8, 2010, THE BOARD OF DIRECTORS OF THE HOSPITAL (THE "BOARD") PLACED MR. GERRICK ON ADMINISTRATIVE LEAVE, PENDING FURTHER PROGRESS IN AN INDEPENDENT INVESTIGATION THAT WAS BEING CONDUCTED ON BEHALF OF THE BOARD. ON APRIL 7, 2011, THE BOARD OF THE HOSPITAL TERMINATED MR. GERRICK AS PRESIDENT AND CEO OF THE HOSPITAL.

A. ACTION BY THE BOARD WHEN IT WAS FIRST INFORMED OF ALLEGATIONS OF MISCONDUCT BY MR. GERRICK AS THE PRESIDENT AND CFO OF THE HOSPITAL

IN MID-SEPTEMBER 2010, FOR THE FIRST TIME, HOSPITAL PERSONNEL INFORMED BERYL WEINER, ESQ., OF THE LAW FIRM OF SELVIN & WEINER APC, THE

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HOSPITAL'S OUTSIDE GENERAL COUNSEL, THAT MR. GERRICK HAD ENGAGED IN AND/OR FAILED TO STOP A VARIETY OF HARASSING, OFFENSIVE, INTIMIDATING, OR OPPRESSIVE ACTS THAT ALLEGEDLY RESULTED IN THE CREATION OF A HOSTILE WORK ENVIRONMENT FOR SUCH PERSONNEL. MR. WEINER PROMPTLY REPORTED SUCH ALLEGATIONS TO THE BOARD OF THE HOSPITAL, WHICH IS THE FIRST TIME THE BOARD BECAME AWARE OF SUCH ALLEGATIONS OF MISCONDUCT BY MR. GERRICK.

THE BOARD, IMMEDIATELY UPON BEING MADE AWARE OF ALLEGED IMPROPRIETIES OF MR. GERRICK, AUTHORIZED A COMPLETE INVESTIGATION INTO THE BASIS FOR SUCH ALLEGATIONS, WHICH WAS PROMPTLY COMMENCED BY THE LAW FIRM OF SHEPPARD, MULLIN, RICHTER & HAMPTON, LLP ("SHEPPARD MULLIN"), A LAW FIRM SELECTED BY THE BOARD THAT IS INDEPENDENT OF ALL HOSPITAL PERSONNEL, MR. WEINER AND THE LAW FIRM OF SELVIN & WEINER, APC, THE HOSPITAL OUTSIDE GENERAL COUNSEL, AND THE BOARD, TO SERVE AS THE HOSPITAL'S INDEPENDENT OUTSIDE COUNSEL. AT THE CONCLUSION OF ITS INVESTIGATION, SHEPPARD MULLIN PROVIDED A WRITTEN REPORT TO THE BOARD. BEFORE MID-SEPTEMBER 2010, WHEN SUCH ALLEGATIONS WERE FIRST BROUGHT TO THE ATTENTION OF MR. WEINER AND THE BOARD, NEITHER MR. WEINER NOR THE MEMBERS OF THE BOARD WERE AWARE OF ANY SUCH ACTS OF IMPROPRIETY ALLEGED TO HAVE BEEN CAUSED BY MR. GERRICK.

THE BOARD GAVE SHEPPARD MULLIN BROAD, UNLIMITED AUTHORITY TO CONDUCT A THOROUGH AND IN-DEPTH INDEPENDENT INVESTIGATION, INCLUDING INTERVIEWS WITH ANY AND ALL HOSPITAL PERSONNEL AND OTHERS, IN ORDER TO VERIFY OR REFUTE THE ALLEGATIONS THAT HAD BEEN MADE ABOUT MR. GERRICK.

B. INVESTIGATION OF ALLEGATIONS AGAINST MR. GERRICK, THE

HOSPITAL'S PRESIDENT AND CEO; SHEPPARD MULLIN'S FINDINGS; THE BOARD OF

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THE HOSPITAL TERMINATED MR. GERRICK AS PRESIDENT AND CEO OF THE
HOSPITAL

THE LAW FIRM OF SHEPPARD MULLIN CONDUCTED EXTENSIVE INTERVIEWS WITH
NUMEROUS HOSPITAL PERSONNEL AND OTHERS, INCLUDING MR. GERRICK HIMSELF,
AND ULTIMATELY PRESENTED THE BOARD WITH A WRITTEN REPORT, SUPPORTED BY
SWORN AFFIDAVITS FROM HOSPITAL PERSONNEL.

THE FIRST PHASE OF THE SHEPPARD MULLIN INVESTIGATION CONFIRMED THE
EXISTENCE OF A HOSTILE WORK ENVIRONMENT CREATED BY MR. GERRICK'S
MISTREATMENT OF AND THREATS TO HOSPITAL PERSONNEL. THE BOARD TOOK
IMMEDIATE STEPS TO CORRECT AND IMPROVE THE WORK ENVIRONMENT AND TO
ELIMINATE SUCH MISTREATMENT AND THREATS. THE FIRST STEP WAS TO
PROMPTLY PLACE MR. GERRICK ON ADMINISTRATIVE LEAVE AND NOT PERMIT HIM
TO HAVE ANY PHYSICAL PRESENCE AT THE HOSPITAL OR ANY OTHER INVOLVEMENT
WITH THE BUSINESS AND AFFAIRS OF THE HOSPITAL.

AFTER THE SHEPPARD MULLIN INVESTIGATION OF MR. GERRICK'S ACTIVITIES
COMMENCED, BUT BEFORE THE INVESTIGATION WAS COMPLETED, INFORMATION
SURFACED FOR THE FIRST TIME THAT MR. GERRICK HAD SPENT HOSPITAL FUNDS
FOR IMPROPER PAYMENTS TO OR REIMBURSEMENTS OF HIS PERSONAL EXPENSES
OVER A NUMBER OF YEARS. THE SHEPPARD MULLIN INVESTIGATION ALSO
REVEALED THAT WHEN MR. GERRICK SOUGHT SUCH PAYMENTS OR REIMBURSEMENTS
FROM THE HOSPITAL, THE HOSPITAL'S DIRECTOR OF FINANCE REFUSED TO
APPROVE SUCH PAYMENTS UNLESS AND UNTIL MR. GERRICK COMPLIED WITH
HOSPITAL AND INTERNAL REVENUE SERVICE REQUIREMENTS CONCERNING
DOCUMENTATION FOR PAYMENT OR REIMBURSEMENT OF EXPENSES.

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MR. GERRICK REPEATEDLY FAILED AND REFUSED TO FOLLOW THE REQUIRED
 PROTOCOL, AND, AS A RESULT, THE HOSPITAL'S DIRECTOR OF FINANCE REFUSED
 TO APPROVE SUCH PAYMENTS, AND ALSO REFUSED TO SIGN EXPENSE
 REIMBURSEMENT CHECKS REQUESTED BY MR. GERRICK.

AS A RESULT, MR. GERRICK ALONE APPROVED THE PAYMENTS AND SIGNED THE
 CHECKS IN DIRECT CONTRAVENTION OF INTERNAL REVENUE SERVICE STANDARDS
 AND ESTABLISHED HOSPITAL POLICY AND PRACTICE. THE HOSPITAL'S DIRECTOR
 OF FINANCE ACKNOWLEDGED THAT BECAUSE OF MR. GERRICK'S THREATS TO HER,
 SHE FELT INTIMIDATED BY HIM, THEREFORE SHE DID NOT REPORT THESE EVENTS
 TO MR. WEINER OR TO THE BOARD.

AS A RESULT OF THE REVELATIONS TO THE BOARD OF FINANCIAL IMPROPRIETIES
 BY MR. GERRICK, THE BOARD ALSO AUTHORIZED THE ENGAGEMENT BY THE
 SHEPPARD MULLIN FIRM OF AN INDEPENDENT AUDIT FIRM, MOSS ADAMS LLP
 ("MOSS ADAMS"), TO REVIEW THE HOSPITAL'S BOOKS AND RECORDS AND
 INVESTIGATE MR. GERRICK'S ACTIVITIES INVOLVING HOSPITAL FUNDS, TO
 CONDUCT AN ANALYSIS OF SUMS PAID TO OR ON BEHALF OF MR. GERRICK,
 DIRECTLY OR INDIRECTLY, WHETHER AS PAYMENTS TO MR. GERRICK OR AS
 REIMBURSEMENT OF HIS PERSONAL EXPENSES. MOSS ADAMS WAS ALSO REQUESTED
 TO PROVIDE A WRITTEN REPORT TO THE BOARD.

THE SECOND PHASE OF THE SHEPPARD MULLIN INVESTIGATION CONCLUDED IN
 APRIL 2011, AND THE MOSS ADAMS INVESTIGATION CONCLUDED IN JUNE 2011.
 THE CONCLUSIONS OF THEIR RESPECTIVE INVESTIGATIONS RESULTED IN FINDINGS
 THAT MR. GERRICK, WHILE SERVING AS PRESIDENT AND CEO OF THE HOSPITAL,
 ENGAGED IN A SERIES OF TRANSACTIONS AND ACTIVITIES IN DIRECT
 CONTRAVENTION OF HOSPITAL POLICY AND PRACTICE AND CONTRARY TO INTERNAL

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REVENUE SERVICE REGULATIONS RELATING TO PAYMENT OR REIMBURSEMENT OF EXPENSES, AND THAT HE ENGAGED IN A SERIES OF INAPPROPRIATE ARRANGEMENTS WITH THIRD-PARTY VENDORS OF THE HOSPITAL THAT WERE, AMONG OTHER THINGS, NOT IN THE BEST INTERESTS OF THE HOSPITAL.

IN SHORT, THE SHEPPARD MULLIN INVESTIGATION CONCLUDED THAT MR. GERRICK PROMOTED A HOSTILE WORK ENVIRONMENT FOR PERSONNEL OF THE HOSPITAL, THAT HE ACTED IN A MANNER THAT WAS DETRIMENTAL TO THE HOSPITAL AND BENEFICIAL TO HIMSELF, AND THAT HE CAUSED THE HOSPITAL TO MAKE INAPPROPRIATE ARRANGEMENTS WITH THIRD-PARTY VENDORS THAT WERE DETRIMENTAL TO THE HOSPITAL.

SHEPPARD MULLIN CONCLUDED THAT MR. GERRICK'S ACTIVITIES THAT RESULTED IN EXCESS BENEFITS REAPED BY HIM, AND/OR OTHER MISCONDUCT, INCLUDE, BUT WERE NOT LIMITED TO, THE FOLLOWING CATEGORIES: A) PROVISION OF FREE AND/OR DISCOUNTED MEDICAL SERVICES AND DRUGS AND PHARMACEUTICALS TO HIMSELF AND HIS FAMILY AND FRIENDS; B) USE OF THE HOSPITAL'S DIETARY DEPARTMENT TO PROCURE AND PREPARE MEALS FOR HIMSELF AND HIS FAMILY AND FRIENDS; C) USE OF HOSPITAL PERSONNEL OR INDEPENDENT CONTRACTORS FOR PERSONAL PURPOSES; D) REIMBURSEMENT TO HIMSELF OF QUESTIONABLE EXPENSES, AMOUNTING TO EXCESSIVE COMPENSATION; E) ABUSE OF THE HOSPITAL'S PAID TIME OFF BENEFIT, AMOUNTING TO EXCESSIVE COMPENSATION; F) ENTERING INTO INAPPROPRIATE CONTRACTS OR ARRANGEMENTS WHICH WERE PERSONALLY BENEFICIAL TO HIM AND/OR NOT IN THE HOSPITAL'S BEST INTERESTS; AND, G) MAKING OF UNDOCUMENTED LOAN(S) TO HOSPITAL VENDOR(S).

THE SHEPPARD MULLIN INVESTIGATION ALSO CONCLUDED THAT MR. GERRICK

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ACTIVELY CONCEALED HIS ACTIVITIES, ACTIONS AND MISCONDUCT FROM MR.
WEINER AND FROM THE BOARD.

AS A RESULT, ON APRIL 7, 2011, THE BOARD OF THE HOSPITAL FORMALLY
TERMINATED MR. GERRICK AS PRESIDENT AND CEO OF THE HOSPITAL.

C. AUDITOR MOSS ADAMS' FINDINGS: EXCESS BENEFIT TRANSACTIONS BY
MR. GERRICK

THE MOSS ADAMS' INVESTIGATION RESULTED IN THE FINDINGS THAT MR. GERRICK
ALONE HAD AUTHORIZED AND APPROVED AND SIGNED CHECKS FOR PAYMENTS TO
AMERICAN EXPRESS FOR HIS CREDIT CARD AND TO HIMSELF FOR REIMBURSEMENT
OF HIS PERSONAL EXPENSES, WHICH PAYMENTS WERE ACTIVELY CONCEALED BY MR.
GERRICK FROM MR. WEINER, AND FROM THE BOARD.

MOSS ADAMS' AUDIT CONCLUDED THAT MR. GERRICK'S SELF-DEALING AND EXCESS
BENEFIT TRANSACTIONS OVER A 13-YEAR PERIOD RESULTED IN NO LESS THAN
\$1,095,336 IN DAMAGES TO THE HOSPITAL. MOSS ADAMS' ALSO CONCLUDED THAT
MR. GERRICK FAILED TO FOLLOW ESTABLISHED POLICIES AND PROCEDURES
APPLICABLE TO THE PAYMENT AND REIMBURSEMENT PROCESS AND THAT THE VAST
MAJORITY OF EXPENSES FOR WHICH MR. GERRICK RECEIVED PAYMENT OR
REIMBURSEMENT WERE NOT SUPPORTED BY SUFFICIENT VERIFIABLE INFORMATION
AS REQUIRED BY THE INTERNAL REVENUE SERVICE AND WERE NOT APPROVED FOR
REIMBURSEMENT IN ACCORDANCE WITH HOSPITAL POLICY.

1. MR. GERRICK'S FAILURE TO COMPLY WITH HOSPITAL AND
INTERNAL REVENUE SERVICE REQUIREMENTS.

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MOSS ADAMS' INVESTIGATION HIGHLIGHTED MR. GERRICK'S IMPROPER PRACTICE OF OBTAINING PAYMENT OR REIMBURSEMENT FROM THE HOSPITAL FOR HIS PERSONAL EXPENSES (SUCH AS CHARGES FOR VACATION TRAVEL (U.S. AND OVERSEAS), HOTELS, MEALS, GOLF, CLOTHING (INCLUDING FOR WOMEN), GIFTS, ACCESSORIES AND PERSONAL ENTERTAINMENT) BY CHARACTERIZING THEM AS BUSINESS EXPENSES.

MR. GERRICK VIOLATED HOSPITAL POLICY AND PRACTICE (AND IRS GUIDELINES) BY FAILING TO ITEMIZE AND SUBSTANTIATE PURPORTED BUSINESS EXPENSES ON APPROVED HOSPITAL FORMS, OR IN ANY OTHER MANNER, DESPITE REPEATED REQUESTS TO DO SO FROM THE HOSPITAL'S DIRECTOR OF FINANCE.

THE HOSPITAL'S DIRECTOR OF FINANCE REPORTED TO THE INVESTIGATORS THAT MR. GERRICK REPEATEDLY COERCED HER TO PREPARE CHECKS PAYABLE DIRECTLY TO AMERICAN EXPRESS, MR. GERRICK'S CREDIT CARD COMPANY, DESPITE MR. GERRICK'S REFUSAL TO COMPLY WITH HER REPEATED REQUESTS FOR SUBSTANTIATION IN COMPLIANCE WITH IRS REQUIREMENTS. WHEN ASKED BY THE DIRECTOR OF FINANCE ABOUT THE EXPENSES FOR WHICH MR. GERRICK SOUGHT PAYMENT OR REIMBURSEMENT, MR. GERRICK CLAIMED TO BE UNABLE TO REMEMBER THE DETAILS IN CONNECTION WITH EXPENSES HE SUBMITTED FOR PAYMENT OR REIMBURSEMENT, EVEN WHEN THE EXPENDITURE OCCURRED WITHIN THE PRECEDING MONTH OR TWO.

RATHER THAN PROVIDE DOCUMENTATION IN ACCORDANCE WITH IRS STANDARDS, MR. GERRICK PERSONALLY APPROVED PAYMENTS TO HIMSELF AND ALONE SIGNED SUCH CHECKS, CONTRARY TO HOSPITAL POLICY AND PRACTICE.

2. PAYMENT OR REIMBURSEMENT BY HOSPITAL OF HIGHLY

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QUESTIONABLE EXPENSES (EXCESS BENEFIT TRANSACTIONS) TO MR. GERRICK

MOSS ADAMS CONCLUDED THAT, AMONG THE HIGHLY QUESTIONABLE EXPENSES DISCOVERED DURING THE INVESTIGATION, FOR WHICH MR. GERRICK CAUSED THE HOSPITAL TO PAY OR REIMBURSE HIMSELF, WERE THE FOLLOWING:

(A) MULTIPLE MONT BLANC PENS; A WEEKEND MEAL AT "CHUCK E. CHEESE," A CHILDREN'S RESTAURANT; EXPENSIVE RESTAURANT DINNERS ON MOTHER'S DAY, FATHER'S DAY, VALENTINE'S DAY AND HIS GIRLFRIEND'S BIRTHDAYS; EXPENSIVE RESTAURANT DINNERS ALMOST EVERY WEEKNIGHT OF THE YEAR (AND MANY SATURDAYS AND SUNDAYS); CLOTHING (APPARENTLY WOMEN'S) PURCHASED FROM SUCH HIGH-END RETAILERS AS ST. JOHN KNITS AND BURBERRY (ALLEGEDLY GIVEN AS GIFTS TO FRIENDS AND MR. GERRICK'S GIRLFRIEND); AND GOLF.

(B) TRAVEL EXPENSES (AIRFARE, HOTELS AND MEALS) IN CONNECTION WITH NON-BUSINESS TRIPS FOR MR. GERRICK AND HIS GIRLFRIEND, INCLUDING, BUT NOT LIMITED TO: (A) A VACATION IN FRANCE AND ENGLAND; (B) A MEDITERRANEAN CRUISE; (C) A VACATION TRIP TO HAWAII; AND (D) A SKI TRIP. FOR THOSE TRIPS, THE SHEPPARD MULLIN INVESTIGATION CONCLUDED THAT MR GERRICK SIGNED HIS GIRLFRIEND'S TIME CARD REFLECTING THAT SHE WAS ENGAGED IN "EDUCATIONAL" ACTIVITIES, SO SHE WOULD BE PAID BY THE HOSPITAL AS THOUGH SHE WAS WORKING FULL TIME.

(C) TOYOTA REPAIR BILLS, ALTHOUGH MR. GERRICK DID NOT OWN OR DRIVE A TOYOTA AND RECEIVED A SUBSTANTIAL CAR ALLOWANCE FOR HIS MERCEDES BENZ AUTOMOBILE. MR. GERRICK CHARGED THE HOSPITAL PURPORTED "LEASE PAYMENTS" ON HIS MERCEDES BENZ AUTOMOBILE, WHEN IN REALITY THE

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PAYMENTS REDUCED HIS PERSONAL AUTO LOAN IN CONNECTION WITH HIS PURCHASE OF THE MERCEDES (IN AMOUNTS FAR GREATER THAN WOULD HAVE BEEN REQUIRED HAD HE REALLY LEASED THE AUTOMOBILE).

(D) PAYMENT OR REIMBURSEMENT TWICE ON THE SAME RESTAURANT CHECK STUB, AND REIMBURSEMENT FOR A DINNER WITH MR. GERRICK'S FRIEND (NOT A PHYSICIAN), FOR WHICH MR. GERRICK SUBSTITUTED THE NAME OF A PHYSICIAN ON THE RECEIPT.

3. ALLEGATIONS OF MISCONDUCT BY MR. GERRICK AS PRESIDENT AND CEO OF THE HOSPITAL; INAPPROPRIATE PAYMENTS MR. GERRICK CAUSED THE HOSPITAL TO MAKE TO THIRD-PARTY VENDORS OF THE HOSPITAL

THE SHEPPARD MULLIN INVESTIGATION CONCLUDED THAT, IN ADDITION TO MR. GERRICK'S EXCESS BENEFIT TRANSACTIONS, MR. GERRICK HAD QUESTIONABLE, UNAUTHORIZED AND/OR INAPPROPRIATE FINANCIAL TRANSACTIONS WITH THIRD-PARTY VENDORS OF THE HOSPITAL, WHICH RESULTED IN MR. GERRICK HAVING APPROVED AND ALONE SIGNED HOSPITAL CHECKS FOR INAPPROPRIATE PAYMENTS MADE BY THE HOSPITAL TO THESE THIRD PARTIES. NONE OF THOSE PAYMENTS WERE IN THE HOSPITAL'S BEST INTEREST.

IN EACH SUCH INSTANCE, THE SHEPPARD MULLIN INVESTIGATION CONCLUDED THAT MR. GERRICK FAILED TO FOLLOW HOSPITAL PROTOCOL, AND HE ACTIVELY CONCEALED SUCH INFORMATION FROM MR. WEINER, FROM THE BOARD, AND FROM THE HOSPITAL'S OUTSIDE INDEPENDENT AUDITORS, WINDES & MCCLAUGHRY ACCOUNTANCY CORPORATION, AND THAT SUCH PAYMENTS WERE NOT IN THE HOSPITAL'S BEST INTEREST. THE HOSPITAL HAS TERMINATED ITS RELATIONSHIP (CONTRACTS) WITH SUCH VENDORS AND IS ASSERTING MONETARY CLAIMS AGAINST

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D. ACTIVE CONCEALMENT BY MR. GERRICK OF MATERIAL INFORMATION

FROM THE BOARD OF THE HOSPITAL, FROM MR. WEINER, THE HOSPITAL'S OUTSIDE GENERAL COUNSEL, AND FROM THE ACCOUNTING FIRM OF WINDES & MCCLAUGHRY, THE HOSPITAL'S OUTSIDE INDEPENDENT AUDITORS; SUCH CONCEALMENT PRECLUDED THE HOSPITAL FROM EARLIER DEALING WITH AND DISCLOSING SUCH MISCONDUCT ON THE HOSPITAL'S FORM 990 INCOME TAX RETURNS FOR PRIOR YEARS

SHEPPARD MULLIN'S INVESTIGATION REVEALED THAT MR. GERRICK ACTIVELY CONCEALED HIS MISCONDUCT AND THREATENED HOSPITAL PERSONNEL WITH TERMINATION AND OTHER ILLEGAL RETALIATORY CONSEQUENCES IF ANYONE WERE TO REVEAL EITHER TO MR. WEINER, THE HOSPITAL'S OUTSIDE GENERAL COUNSEL, OR TO THE BOARD, ANY NEGATIVE INFORMATION (I.E., "WHISTLEBLOW") ABOUT MR. GERRICK OR HIS ACTIONS AS PRESIDENT AND CEO OF HOSPITAL. THE INVESTIGATION ALSO REVEALED THAT MR. GERRICK GAVE CONTRADICTORY INFORMATION TO THE INVESTIGATORS CONCERNING HIS ACTIONS. AS A RESULT, NEITHER MR. WEINER, THE BOARD, OR WINDES & MCCLAUGHRY KNEW ABOUT MR. GERRICK'S MISCONDUCT AND WERE THEREFORE UNABLE TO TAKE ACTION TO PREVENT MR. GERRICK'S MISCONDUCT.

1. MR. GERRICK'S THREATS AND INSTRUCTIONS TO HOSPITAL

PERSONNEL ENABLED HIM TO CONCEAL INFORMATION RELATING TO HIS MISCONDUCT FROM MR. WEINER. THE BOARD, AND WINDES & MCCLAUGHRY

THE HOSPITAL'S DIRECTOR OF FINANCE REVEALED TO THE INVESTIGATORS THAT WHEN SHE VOICED HER CONCERNS TO MR. GERRICK ABOUT REIMBURSEMENTS OR SUBSTANTIATION FOR CONTRACT SERVICES, SHE WAS TOLD BY MR. GERRICK TO

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KEEP HER CONCERNS TO HERSELF. SHE STATED THAT SHE DID NOT BRING THE FOREGOING TO THE ATTENTION OF MR. WEINER OR TO THE BOARD BECAUSE SHE FEARED SUCH A DISCLOSURE WOULD PLACE HER JOB IN JEOPARDY OR WOULD RESULT IN OTHER RETALIATION AGAINST HER BY MR. GERRICK.

THE SHEPPARD MULLIN INVESTIGATION CONCLUDED THAT THE HOSPITAL'S DIRECTOR OF FINANCE DID NOT REPORT MR. GERRICK'S ACTIONS OR HIS FINANCIAL TRANSACTIONS INVOLVING THE HOSPITAL TO MR. WEINER, OR TO THE BOARD, BECAUSE SHE WAS INTIMIDATED BY MR. GERRICK AND HIS THREATS TO HER AND SHE WAS AFRAID MR. GERRICK WOULD FIRE HER IF SHE DISCLOSED SUCH INFORMATION.

THE SHEPPARD MULLIN INVESTIGATION ALSO CONCLUDED THAT MR. GERRICK ROUTINELY WARNED HOSPITAL STAFF MEMBERS TO LIMIT THEIR CONVERSATIONS WITH MR. WEINER, TO AVOID CONVERSING WITH MR. WEINER, AND TO NOT PROVIDE MR. WEINER WITH INFORMATION OR DOCUMENTS REGARDING THE BUSINESS AND AFFAIRS OF THE HOSPITAL. THE HOSPITAL'S DIRECTOR OF FINANCE WAS SPECIFICALLY INSTRUCTED BY MR. GERRICK TO NOT SPEAK WITH MR. WEINER. WHEN THE SHEPPARD MULLIN INVESTIGATORS INTERVIEWED MR. GERRICK'S ASSISTANT (WHOM MR. GERRICK INSTRUCTED TO PREPARE CONTRACTS FOR THE HOSPITAL), SHE STATED THAT MR. GERRICK ACCUSED HER OF GIVING "TOO MUCH INFORMATION" ABOUT THE HOSPITAL TO MR. WEINER.

OTHER HOSPITAL PERSONNEL INTERVIEWED BY THE SHEPPARD MULLIN INVESTIGATORS ALSO STATED THAT THEY WERE SPECIFICALLY INSTRUCTED BY MR. GERRICK TO NOT SPEAK WITH MR. WEINER.

HOSPITAL PERSONNEL STATED TO INVESTIGATORS THAT MR. GERRICK TOLD THEM

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THAT HE (MR. GERRICK) MADE ALL OF THE DECISIONS AT THE HOSPITAL AND THERE WAS NO NEED TO ASK MR. WEINER ANYTHING. FOR EXAMPLE, WHEN MR. WEINER REQUESTED FINANCIAL INFORMATION OF THE HOSPITAL'S DIRECTOR OF FINANCE (INCLUDING INFORMATION MR. WEINER REQUESTED OF HER DURING THE INVESTIGATION), SHE WAS ADMONISHED BY MR. GERRICK TO NEVER PROVIDE INFORMATION TO MR. WEINER WITHOUT MR. GERRICK'S PRIOR REVIEW AND APPROVAL.

THE SHEPPARD MULLIN INVESTIGATION CONCLUDED THAT, AS A RESULT OF MR. GERRICK'S CONDUCT AND THREATS TO HOSPITAL PERSONNEL, INCLUDING FRAUD AND/OR MISREPRESENTATION, MR. GERRICK WAS ABLE TO CONCEAL FROM MR. WEINER, FROM THE BOARD, AND FROM WINDES & MCCLAUGHRY, THE EXCESS BENEFITS TO WHICH MR. GERRICK AVAILED HIMSELF, AND HIS OTHER ACTS OF MISCONDUCT.

THE SHEPPARD MULLIN INVESTIGATION ALSO CONCLUDED THAT THE EXCESS BENEFITS THAT MR. GERRICK HELPED HIMSELF TO WERE NOT REPORTED BY THE HOSPITAL PRIOR TO THIS TIME BECAUSE NEITHER THE BOARD NOR MR. WEINER, NOR WINDES & MCCLAUGHRY, WERE AWARE OF SUCH CONDUCT UNTIL THE INVESTIGATIONS BY SHEPPARD MULLIN AND MOSS ADAMS CONCLUDED IN APRIL AND JUNE, 2011, RESPECTIVELY, WHEN THE RESULTS OF SUCH INVESTIGATIONS REVEALED THAT MR. GERRICK CONFERRED THESE BENEFITS UPON HIMSELF SURREPTITIOUSLY AND THAT MR. GERRICK ALSO CAUSED THE HOSPITAL TO MAKE INAPPROPRIATE PAYMENTS TO THIRD PARTIES.

THE SHEPPARD MULLIN INVESTIGATION CONCLUDED THAT, BECAUSE OF MR. GERRICK'S ACTIVE CONCEALMENT OF HIS ACTIONS, THE ECONOMIC BENEFITS TO WHICH MR. GERRICK HELPED HIMSELF WERE NOT KNOWN, SUSPECTED, OR

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SANCTIONED BY THE BOARD OF THE HOSPITAL OR BY MR. WEINER, OR KNOWN BY WINDES & MCCLAUGHRY, AND, AS SUCH, WERE NOT INTENDED TO BE TREATED AS CONSIDERATION FOR MR. GERRICK'S SERVICES TO THE HOSPITAL.

2. THE SHEPPARD MULLIN INVESTIGATORS APPRISED MR. GERRICK OF THE INVESTIGATION AND THE ALLEGATIONS INVOLVING HIS MISCONDUCT IN ORDER TO PROVIDE HIM WITH AN OPPORTUNITY TO EXPLAIN OR REFUTE THE RESULTS OF THE INVESTIGATIONS; MR. GERRICK GAVE THE INVESTIGATORS CONTRADICTORY INFORMATION; THE INVESTIGATORS CONCLUDED THAT MR. GERRICK'S RESPONSES LACKED CREDIBILITY

MR. GERRICK WAS APPRISED OF THE SHEPPARD MULLIN INVESTIGATION ON MULTIPLE OCCASIONS WHILE IT WAS IN PROGRESS. NEVERTHELESS, DURING THE COURSE OF THE SHEPPARD MULLIN INVESTIGATION (BEFORE MR. GERRICK WAS PLACED ON ADMINISTRATIVE LEAVE BY THE BOARD), MR. GERRICK CONTINUED TO INSTRUCT HOSPITAL PERSONNEL TO WITHHOLD INFORMATION FROM MR. WEINER.

SHEPPARD MULLIN'S INVESTIGATORS INFORMED MR. GERRICK OF THE HOSPITAL'S ALLEGATIONS AGAINST HIM (HOSTILE WORK ENVIRONMENT, FINANCIAL IMPROPRIETIES, INAPPROPRIATE ARRANGEMENTS WITH MANY THIRD-PARTY VENDORS). THEY ALSO GAVE MR. GERRICK AMPLE OPPORTUNITY TO EXPLAIN OR REFUTE THE RESULTS OF THE INVESTIGATIONS. THE INVESTIGATORS ALSO GAVE MR. GERRICK AMPLE OPPORTUNITY TO PROVIDE THE INVESTIGATORS WITH DOCUMENTARY EVIDENCE TO SUPPORT HIS VERSION OF EVENTS.

MR. GERRICK RESPONDED THAT THE ALLEGATIONS AGAINST HIM WERE "UNTRUE" OR "LIES" AND THE INVESTIGATION WAS A "WITCH HUNT."

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MR. GERRICK MADE MANY CONTRADICTORY STATEMENTS TO THE SHEPPARD MULLIN INVESTIGATORS. FOR EXAMPLE, HE STATED THAT HE WAS MERELY A FIGUREHEAD AT THE HOSPITAL AND NEVER TOOK ANY ACTION WITHOUT TELLING MR. WEINER. HOWEVER, MR. GERRICK'S STATEMENTS WERE CONTRADICTED: (A) BY HOSPITAL PERSONNEL WHO STATED THAT MR. GERRICK ORDERED THEM TO NOT SPEAK WITH MR. WEINER, AND WHO WERE THREATENED BY MR. GERRICK FOR ATTEMPTING TO SPEAK WITH MR. WEINER OR TO PROVIDE INFORMATION TO MR. WEINER; (B) BY MR. GERRICK ENTERING INTO CONTRACTS ON BEHALF OF THE HOSPITAL WITHOUT MR. WEINER'S KNOWLEDGE; AND (C) BY MR. GERRICK STATING TO HOSPITAL PERSONNEL THAT HE MADE ALL THE DECISIONS AT THE HOSPITAL AND THEREFORE THERE WAS NO REASON FOR THEM TO SPEAK WITH MR. WEINER.

MORE IMPORTANTLY, MR. GERRICK ADMITTED TO THE SHEPPARD MULLIN INVESTIGATORS THAT OVER THE YEARS, HE HAD BEEN "FORCED TO WORK AROUND" MR. WEINER, THE HOSPITAL'S OUTSIDE GENERAL COUNSEL, BECAUSE, AS THE HOSPITAL'S CEO, HE NEEDED "FLEXIBILITY." AS A RESULT, MR. GERRICK STATED TO THE INVESTIGATORS THAT HE WOULD HAVE HIS ASSISTANT (NOT AN ATTORNEY OR PARALEGAL) DRAFT CONTRACTS ON BEHALF OF THE HOSPITAL THAT HE WOULD SIGN WITHOUT INFORMING MR. WEINER OR PROVIDING A COPY TO MR. WEINER AS HE AGREED TO DO. MR. GERRICK ALSO STATED TO THE INVESTIGATORS THAT WHEN MR. WEINER BECAME AWARE OF THIS PRACTICE, MR. WEINER REQUESTED THAT THE PRACTICE STOP. ACCORDING TO MR. GERRICK, HE COMPLIED WITH MR. WEINER'S REQUESTS IMMEDIATELY. HOWEVER, MR. GERRICK'S ASSISTANT CONFIRMED AND THE SHEPPARD MULLIN INVESTIGATION CONCLUDED THAT MR. GERRICK CONTINUED HIS PRACTICE OF "WORKING AROUND" MR. WEINER AND HAVING HIS ASSISTANT DRAFT CONTRACTS AFTER MR. WEINER TOLD HIM TO STOP.

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DURING THE COURSE OF THE SHEPPARD MULLIN INVESTIGATION, MR. GERRICK ATTEMPTED TO ALTER HOSPITAL FINANCIAL RECORDS IN ORDER THAT THEY REFLECT THAT THE EXPENSES THAT THE HOSPITAL PAID FOR MR. GERRICK (OR FOR WHICH HE WAS REIMBURSED) WERE FOR "BUSINESS DEVELOPMENT." HOWEVER, MR. GERRICK WAS PLACED ON ADMINISTRATIVE LEAVE BY THE BOARD BEFORE HE WAS ABLE TO IMPLEMENT HIS SCHEME TO ALTER THE HOSPITAL'S FINANCIAL RECORDS.

MR. GERRICK ALSO CLAIMED, IN HIS DEFENSE, THAT MR. WEINER WAS AWARE OF AND INVOLVED IN ALL OF MR. GERRICK'S ACTS ON BEHALF OF THE HOSPITAL, INCLUDING MR. GERRICK'S ACTIONS AND INSTRUCTIONS IN CONNECTION WITH THIRD-PARTY VENDORS OF THE HOSPITAL. MR. GERRICK ALSO MADE OTHER ACCUSATIONS AGAINST MR. WEINER. AT THE BOARD'S REQUEST, SHEPPARD MULLIN INDEPENDENTLY AND THOROUGHLY INVESTIGATED EACH OF MR. GERRICK'S ACCUSATIONS AND DEFENSES, WHICH INVESTIGATION INCLUDED, WITHOUT LIMITATION, THE INTERVIEW OF MULTIPLE WITNESSES AND EXAMINATION OF HUNDREDS OF RELEVANT DOCUMENTS. MR. WEINER, THE BOARD AND OTHER HOSPITAL PERSONNEL FULLY COOPERATED WITH THE INVESTIGATORS. SHEPPARD MULLIN FOUND THOSE ACCUSATIONS AGAINST MR. WEINER NOT ONLY TO BE WITHOUT ANY SUPPORT OR MERIT WHATSOEVER, BUT ALSO THAT MR. WEINER HAD ACTED APPROPRIATELY.

3. MR. GERRICK ACTIVELY CONCEALED MATERIAL INFORMATION REGARDING HIS MISCONDUCT FROM MR. WEINER, FROM THE BOARD, AND FROM WINDES & MCCLAUGHRY, THEREBY PRECLUDING THE HOSPITAL FROM TAKING STEPS EARLIER TO PREVENT OR STOP SUCH MISCONDUCT

THE SHEPPARD MULLIN INVESTIGATION CONCLUDED THAT: (A) MATERIAL

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INFORMATION RELATING TO MR. GERRICK'S FINANCIAL TRANSACTIONS WITH THE HOSPITAL AND OTHER INAPPROPRIATE PAYMENTS MR. GERRICK CAUSED THE HOSPITAL TO MAKE TO THIRD-PARTY VENDORS WERE NOT DISCLOSED BY MR.

GERRICK, NOR WERE THEY DISCLOSED BY HOSPITAL PERSONNEL TO MR. WEINER, THE BOARD OF THE HOSPITAL, OR TO WINDES & MCCLAUGHRY BECAUSE OF MR.

GERRICK'S REPEATED THREATS AGAINST SUCH HOSPITAL PERSONNEL; (B) NEITHER MR. WEINER, THE BOARD OF THE HOSPITAL, NOR WINDES & MCCLAUGHRY, WERE AWARE OF MR. GERRICK'S THREATS AGAINST HOSPITAL PERSONNEL, OF MR.

GERRICK'S FINANCIAL IMPROPRIETIES, OR THE INAPPROPRIATE ARRANGEMENTS MR. GERRICK MADE WITH MANY THIRD-PARTY VENDORS.

HAD MR. GERRICK DISCLOSED TO THE BOARD, TO MR. WEINER, AND/OR TO WINDES & MCCLAUGHRY, THE FACT OF MR. GERRICK'S REIMBURSEMENTS OR PAYMENTS, OR THE INAPPROPRIATE TRANSACTIONS ENGAGED IN BY MR. GERRICK ON BEHALF OF THE HOSPITAL WITH THIRD-PARTY VENDORS, OR HAD MR. GERRICK NOT ENGAGED IN CONDUCT TO ACTIVELY CONCEAL SUCH INFORMATION FROM THE BOARD, MR. WEINER, AND WINDES & MCCLAUGHRY, THE BOARD WOULD HAVE BEEN ABLE TO TAKE STEPS EARLIER TO ADDRESS AND CORRECT SUCH CONDUCT.

FURTHER, HAD THE BOARD, MR. WEINER OR WINDES & MCCLAUGHRY KNOWN OF SUCH MISCONDUCT EARLIER, THE HOSPITAL WOULD HAVE DISCLOSED SUCH MISCONDUCT ON PRIOR YEARS' FORMS 990 INFORMATION TAX RETURNS OF THE HOSPITAL.

E. MEASURES IMPLEMENTED BY THE BOARD TO AVOID THE LIKELIHOOD OF A REPETITION OF THE SAME OR SIMILAR ACTS OF MISCONDUCT AS WERE ENGAGED IN BY MR. GERRICK.

SINCE BECOMING AWARE OF THE MISCONDUCT OF MR. GERRICK AND MR. GERRICK'S

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CONCEALMENT OF SUCH MISCONDUCT, THE FOLLOWING ARE EXAMPLES OF STEPS THE BOARD HAS TAKEN IN ORDER TO AVOID A REPETITION OF THE SAME OR SIMILAR ACTS OF MISCONDUCT AS WERE ENGAGED IN BY MR. GERRICK: (A) MR. GERRICK WAS TERMINATED AS PRESIDENT AND CEO; (B) OTHER KEY PERSONNEL WERE TERMINATED; (C) RELATIONSHIPS (INCLUDING CONTRACTS) WITH CERTAIN THIRD PARTY VENDORS WERE TERMINATED; (D) A NEW PRESIDENT AND CEO WAS ENGAGED; (E) A NEW CHIEF FINANCIAL OFFICER WAS ENGAGED; (F) A NEW CHECK SIGNING POLICY (REQUIRING TWO SIGNATURES ON ALL CHECKS) WAS IMPLEMENTED; (G) THE EXPENSE ACCOUNT PAYMENT AND REIMBURSEMENT POLICY WAS REVISED; (H) THE CONTRACT REVIEW POLICY (REQUIRING APPROVAL OF ALL CONTRACTS BY OUTSIDE GENERAL COUNSEL AND THE BOARD) WAS REVISED; (I) HOSPITAL PERSONNEL WERE ENCOURAGED TO MAKE PROMPT DISCLOSURE TO THE OUTSIDE GENERAL COUNSEL AND THE BOARD PURSUANT TO THE EXISTING "WHISTLEBLOWER" POLICY; AND (J) THE HOSPITAL REINFORCED WITH HOSPITAL PERSONNEL THE HOSPITAL'S ZERO TOLERANCE POLICY IN THE EVENT OF ANY MISTREATMENT, INTIMIDATION OR THREATS TO ANY HOSPITAL PERSONNEL.

F. DEMANDS BY THE HOSPITAL TO OBTAIN PAYMENT BY MR. GERRICK FOR ALL EXCESS BENEFITS MR. GERRICK RECEIVED AND FOR OTHER DAMAGES CAUSED BY MR. GERRICK

THE HOSPITAL HAS DEMANDED THAT MR. GERRICK PAY OR OTHERWISE REIMBURSE THE HOSPITAL FOR THE EXCESS BENEFITS HE TOOK FROM THE HOSPITAL AND FOR THE DAMAGES HE CAUSED THE HOSPITAL AS A RESULT OF HIS MISCONDUCT. THE HOSPITAL HAS DELAYED THE FILING OF THIS FORM 990 FEDERAL INFORMATION TAX RETURN IN ORDER TO PROVIDE MR. GERRICK WITH AMPLE OPPORTUNITY TO REPAY TO THE HOSPITAL SUCH EXCESS BENEFITS AND OTHER DAMAGES. TO DATE, MR. GERRICK HAS FAILED AND REFUSED TO DO SO, NOTWITHSTANDING DILIGENT

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COLLECTION EFFORTS BY THE HOSPITAL, WHICH HAVE INCLUDED, WITHOUT
LIMITATION, MULTIPLE FACE-TO-FACE MEETINGS WITH MR. GERRICK AND/OR HIS
COUNSEL, CORRESPONDENCE AND FORMAL MEDIATION PROCEEDINGS UNDER THE
AUSPICES OF A RETIRED JUDGE OF THE LOS ANGELES SUPERIOR COURT.

G. LEGAL PROCEEDINGS BY HOSPITAL AGAINST MR. GERRICK

AS A RESULT OF MR. GERRICK'S FAILURE TO COMPENSATE THE HOSPITAL FOR ALL
DAMAGES HE HAS CAUSED THE HOSPITAL, THE HOSPITAL WILL SHORTLY COMMENCE
APPROPRIATE LEGAL PROCEEDINGS AGAINST MR. GERRICK TO RECOVER ITS
DAMAGES.