

TENET HEALTHCARE CORP  
Form DEF 14A  
April 15, 2005

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

**SCHEDULE 14A**

Proxy Statement Pursuant to Section 14(a) of  
the Securities Exchange Act of 1934 (Amendment No. )

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to §240.14a-12

**Tenet Healthcare Corporation**

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(Name of Registrant as Specified In Its Charter)

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(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

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- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.

(1) Title of each class of securities to which transaction applies:

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(2) Aggregate number of securities to which transaction applies:

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(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

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(1) Amount Previously Paid:

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(4) Date Filed:

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## TENET HEALTHCARE CORPORATION

**Mailing Address:  
13737 Noel Road  
Dallas, Texas, 75240  
(469) 893-2200**

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### NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

**to be held on Thursday, May 26, 2005**

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April 15, 2005

To our Shareholders:

Our Annual Meeting of Shareholders will be held on Thursday, May 26, 2005, at 8:00 a.m. (CST) at the Westin Galleria Hotel, 13340 Dallas Parkway, Dallas, Texas, for the following purposes:

1. To elect nine directors for terms of one-year each;
2. To vote upon a proposal to approve the Third Amended and Restated 2001 Stock Incentive Plan;
3. To ratify the selection of KPMG LLP as independent registered public accountants for the year ending December 31, 2005; and
4. To transact any other business that properly may come before the meeting or any postponements or adjournments thereof.

You may vote if you were a shareholder of record on April 1, 2005.

It is important that your shares be represented and voted at the Annual Meeting. You may vote your shares by completing and returning the proxy card enclosed with this Notice. You also have the option of voting your shares on the Internet or by telephone. Voting instructions are printed on your proxy card or included with your proxy materials. You may revoke a proxy at any time prior to its exercise at the Annual Meeting by following the instructions in the accompanying Proxy Statement. You are invited to attend the meeting and you may vote in person at the meeting even though you have already voted in another manner.

E. PETER URBANOWICZ  
*Corporate Secretary*

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**PROXY STATEMENT**

**General Information**

Your proxy is solicited by the Board of Directors (the "Board") of Tenet Healthcare Corporation ("Tenet," the "Company," "we" or "us") for use at the Annual Meeting of Shareholders to be held in Dallas, Texas at 8:00 a.m. (CST) on Thursday, May 26, 2005, and any adjournments of the meeting, for the purposes set forth in the Notice of Annual Meeting of Shareholders. This Proxy Statement and the accompanying proxy are being mailed on or about April 15, 2005.

In March 2003, the Board approved a change in our fiscal year end from May 31 to December 31, effective December 31, 2002. The period from June 1, 2002 to December 31, 2002 is referred to in this Proxy Statement as the 2002 Transition Period. As required by regulations issued by the Securities and Exchange Commission, information in this Proxy Statement will be provided for the fiscal years ended December 31, 2004 and 2003, the 2002 Transition Period and the fiscal year ended May 31 2002.

You may vote by calling the toll-free telephone number noted on your proxy card. Telephone voting is available 24 hours a day and will be accessible until 5:00 p.m. (EST) on May 25, 2005. Easy-to-follow voice prompts allow you to vote your shares and confirm that your instructions have been properly recorded. You also may choose to vote on the Internet. The web site for Internet voting is noted on your proxy card. Internet voting also is available 24 hours a day and will be accessible until 5:00 p.m. (EST) on May 25, 2005. As with telephone voting, you may confirm that your instructions have been properly recorded. If you choose to vote by mail, please mark your proxy, date and sign it and promptly return it in the postage-paid envelope provided.

If your proxy is properly completed, the shares it represents will be voted at the meeting as you instructed. If you do not provide instructions, your proxy will be voted in accordance with the Board's recommendations as set forth in this Proxy Statement. You have the right to revoke your proxy at any time before it is voted by (1) filing a written notice with our Corporate Secretary, (2) delivering a new proxy bearing a later date, or (3) by attending the Annual Meeting and voting in person.

Holders of our common stock at the close of business on April 1, 2005 are entitled to receive this notice and to vote their shares at the Annual Meeting. As of that date, there were 468,889,068 shares of our common stock outstanding. Each share of common stock is entitled to one vote on each matter properly brought before the Annual Meeting. The presence, in person or by proxy, of a majority of the shares of common stock outstanding on the date of the Annual Meeting is necessary to constitute a quorum at the Annual Meeting. Abstentions and broker nonvotes will be counted for purposes of determining the presence or absence of a quorum, but will not be counted as present for purposes of determining whether a proposal has been approved. The term "broker nonvote" refers to shares held by a broker in street name, which are present by proxy, but which are not voted on a matter pursuant to rules prohibiting brokers from voting on non-routine matters without instructions from the beneficial owner of the shares. Proposal 2 described in this Proxy Statement is such a non-routine matter. The election of directors and the ratification of the independent registered public accountants are routine matters upon which a broker may, in the absence of instructions from the beneficial owner, exercise his or her discretion in voting.

We will pay for the cost of proxy solicitations on behalf of the Board. We have engaged MacKenzie Partners, Inc. to assist in our proxy solicitations. We will pay MacKenzie an amount not to exceed \$25,000 in fees for its proxy solicitation services and reimburse it for its reasonable out-of-pocket expenses. In addition to solicitation by mail by MacKenzie, proxies may be solicited personally or by telephone by our directors, officers and other employees. Proxy materials also may be distributed to the beneficial owners of our stock by brokers, custodians and other parties, and we will reimburse such parties for their reasonable out-of-pocket and clerical expenses.

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**1. DIRECTOR NOMINEES**

Trevor Fetter  
Director  
Member of Executive Committee  
Age: 45

Mr. Fetter was named President effective November 7, 2002 and was appointed Chief Executive Officer in September 2003. Prior to November 2002, he was Chairman and Chief Executive Officer of Broadlane, Inc. from March 2000. From October 1995 to February 2000, he served in several senior management positions at Tenet, including Executive Vice President and Chief Financial Officer and Chief Corporate Officer in the Office of the President. Mr. Fetter holds an M.B.A. from the Harvard Business School and a bachelor's degree in economics from Stanford University. Mr. Fetter also serves as a director of Broadlane, Inc. and as a director of the Federation of American Hospitals and the U.S. Chamber of Commerce. Mr. Fetter has been a director of Tenet since September 2003 and will stand for election at this year's Annual Meeting.

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Brenda J. Gaines  
Director  
Age: 55

Ms. Gaines served as President and Chief Executive Officer of Diners Club North America, a division of Citigroup, from 2002 until her retirement in March 2004. She also served as President of Diners Club from 1999 to 2002 and held a number of senior management positions within Citigroup since 1988. From 1983 to 1987 she worked in various management positions for the City of Chicago, including Deputy Chief of Staff to the Mayor and Commissioner of Housing. Ms. Gaines currently serves on the board of directors of CNA Financial Corp. and Office Depot, Inc. She is also a director of the March of Dimes and the Economic Club of Chicago. Ms. Gaines received her bachelor's degree from the University of Illinois at Champaign-Urbana and her master's degree in public administration from Roosevelt University in Chicago. Ms. Gaines was elected to the Board in March 2005 and will stand for election at this year's Annual Meeting.

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Karen M. Garrison  
Director  
Age: 56

Ms. Garrison served as Executive Vice President of Pitney Bowes Inc. from February 2004 until her retirement from that position in July 2004. From 1999 to 2004 Ms. Garrison served as President of Pitney Bowes Business Services, and from 1978 she held a number of senior management positions at Pitney Bowes including Vice President of Operations and Vice President of Finance and Chief Financial Officer. Ms. Garrison currently serves on the board of directors of North Fork Bancorporation, Inc. and Standard Parking Corporation. Ms. Garrison received her bachelor of science degree in accounting from Rollins College and her M.B.A. from the Florida Institute of Technology. Ms. Garrison was elected to the Board in March 2005 and will stand for election at this year's Annual Meeting.

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Edward A. Kangas  
Chairman  
Chair of Executive Committee  
Age: 60

Mr. Kangas served as Chairman and Chief Executive Officer of Deloitte Touche Tohmatsu from 1989 to 2000. He also served as the Managing Partner of Deloitte & Touche (USA) from 1989 to 1994. He was elected Managing Partner and Chief Executive Officer of Touche Ross in 1985, a position he held through 1989. Mr. Kangas began his career as a staff accountant at Touche Ross in 1967, where he became a partner in 1975. Since his retirement from Deloitte in 2000, Mr. Kangas has served as a consultant to Deloitte and as Chairman of the National Multiple Sclerosis Society. He is also a director of Hovnanian Enterprises Inc., Electronic Data Systems Corporation and Eclipsys Corporation. In addition, he serves as a trustee of the Committee for Economic Development and is a member of Beta Gamma Sigma Directors' Table. Mr. Kangas is currently a member of the board of trustees of the University of Kansas Endowment Association and a member of the University of Kansas Business School Board of Advisors. A certified public accountant, Mr. Kangas holds a bachelor's degree and a master's degree in business administration from the University of Kansas. Mr. Kangas has been a director since April 2003 and was elected Chairman of the Board in July 2003. Mr. Kangas will stand for election at this year's Annual Meeting.

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J. Robert Kerrey  
Director  
Chair of Nominating and Corporate Governance Committee and member of Executive Committee and Quality, Compliance and Ethics Committee  
Age: 61

Mr. Kerrey has been President of New School University in New York City since January 2001. Prior to becoming President of New School University, Mr. Kerrey served as a U.S. Senator from the State of Nebraska from 1989 to 2000. Prior to his election to the U.S. Senate, Mr. Kerrey was Governor of the State of Nebraska from 1982 to 1987. Prior to his entering public service, Mr. Kerrey founded and operated a chain of restaurants and health clubs. Mr. Kerrey sits on the boards of directors of Jones Apparel Group, Inc., Genworth Financial, Inc. and the Concord Coalition. He also sits on the Board of Trustees of The Aerospace Corporation. Mr. Kerrey holds a degree in Pharmacy from the University of Nebraska. Mr. Kerrey has been a director since March 2001 and will stand for election at this year's Annual Meeting.

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Floyd D. Loop, M.D.

Director

Chair of Quality, Compliance and Ethics Committee and member of Executive Committee and Nominating and Corporate Governance Committee

Age: 68

Dr. Loop retired as the Chief Executive Officer and Chairman of the Board of Governors of The Cleveland Clinic Foundation in October 2004, a position he held for fifteen years. Dr. Loop remains employed by the Foundation in a consulting capacity. Before becoming Chief Executive Officer in 1989, Dr. Loop was an internationally recognized cardiac surgeon. He practiced cardiothoracic surgery for 30 years and headed the Department of Thoracic and Cardiovascular Surgery at The Cleveland Clinic from 1975 to 1989. Dr. Loop has authored more than 350 clinical research papers, chaired the Residency Review Committee for Thoracic Surgery and was President of the American Association for Thoracic Surgery. He currently serves on the board of directors of Noteworthy Medical Systems. Dr. Loop holds a bachelor of science degree from Purdue University and received his medical degree from George Washington University. Dr. Loop has been a director since January 1999 and will stand for election at this year's Annual Meeting.

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Richard R. Pettingill

Director

Member of Compensation Committee and Quality, Compliance and Ethics Committee

Age: 56

Mr. Pettingill has been President and Chief Executive Officer of Allina Hospitals and Clinics since October 2002. Prior to serving in this role, he served as Executive Vice President and Chief Operating Officer of Kaiser Foundation Health Plans and Hospitals from 1996 to 2002. He served as President and Chief Executive Officer of Camino Healthcare from 1991 to 1995. Mr. Pettingill is a member of the Board of Directors of Allina and also serves on the Board of Directors for Minnesota Hospital Association, Safest in America and Minnesota Business Partnership. Mr. Pettingill received a bachelor of public administration degree from San Diego State University and a master of arts degree in health care administration from San Jose State University. Mr. Pettingill has been a director since March 2004 and will stand for election at this year's Annual Meeting.

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James A. Unruh

Director

Chair of Audit Committee and member of Executive Committee and Nominating and Corporate Governance Committee

Age: 64

Mr. Unruh has served as Principal of Alerion Capital Group LLC, a private equity firm, since 1998. Prior to founding Alerion, Mr. Unruh was the Chairman, President and Chief Executive Officer of Unisys Corporation from 1990 until 1997. Before being named Chief Executive Officer, Mr. Unruh held a number of senior management positions at Unisys and its predecessor corporation, Burroughs Corporation. Mr. Unruh currently serves on the Board of Directors of Prudential Financial, Inc. and LumenIQ, Inc. In addition, he serves as non-executive Chairman of Apex Microtechnology Corporation and sits on the board of BioVigilant Systems, Inc., a privately-held company. Mr. Unruh received his bachelor's degree in business administration from Jamestown College and his master's degree in business administration from the University of Denver. Mr. Unruh has been a director since June 2004 and will stand for election at this year's Annual Meeting.

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J. McDonald Williams

Director

Age: 63

Mr. Williams served as the Chairman of Trammell Crow Company from 1994 until May 2002, when he was named Chairman Emeritus. Prior to serving in that role, he was the President and Chief Executive Officer of Trammell Crow from 1990 to 1994 and was managing partner from 1977 to 1990. He currently serves as a director of Belo Corp. In 1995 Mr. Williams founded the Foundation for Community Empowerment to assist in redeveloping low-income neighborhoods in Dallas. He also serves on the boards of a number of foundations including the Dallas Foundation, the Hoblitzelle Foundation and the Children's Medical Center Foundation. Mr. Williams is a member of the Leadership Council of the University of Texas Southwestern Medical Center and is a trustee of Dallas Medical Resource. Mr. Williams received his bachelor of science degree from Abilene Christian University and his L.L.B. from George Washington University Law School. Mr. Williams was elected to the Board in March 2005 and will stand for election at this year's Annual Meeting.

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**Nominees and Voting**

On March 14, 2005, the Nominating and Corporate Governance Committee met and recommended that the Board nominate each of directors Fetter, Gaines, Garrison, Kangas, Kerrey, Loop, Pettingill, Unruh and Williams to stand for election at the Annual Meeting. In March 2005, directors Honeycutt, Kane and Lozano notified the Board that they will be retiring from the Board in May 2005 and will not be standing for election at this year's Annual Meeting. Directors Gaines, Garrison, Unruh and Williams were elected by the Board since the time of our last shareholder meeting in May 2004 upon recommendation by the Nominating and Corporate Governance Committee to the full Board as suggested by outside consultants. On March 23, 2005, after considering the Nominating and Corporate Governance Committee's recommendations, the Board nominated each of these nine directors to stand for election at this year's annual meeting. Directors are to be elected by a plurality of the votes cast and votes may not be cumulated.

The shares represented by proxies solicited by the Board will be voted for directors Fetter, Gaines, Garrison, Kangas, Kerrey, Loop, Pettingill, Unruh and Williams. The Board believes each of its nominees will be able and willing to serve as a director. If any nominee becomes unavailable, the Board's proxies will be voted for the remaining nominees and for such other person as the Board may recommend.

**Shareholder Approval**

The nine nominees receiving the highest number of affirmative votes of the shares voted shall be elected as directors. Votes withheld from any nominee and broker nonvotes are not counted for purposes of election of directors. Unless marked to the contrary, proxies solicited by the Board will be voted FOR the election of each nominee of the Board.

**The Board recommends that shareholders vote FOR its nominees for directors.**

**STOCK OWNERSHIP OF MANAGEMENT**

The table below indicates the shares, options and other securities of the Company owned by our directors and each of the Named Executive Officers (as defined on page 19) as of April 1, 2005. On that date, each of the individuals listed below, as well as all the current directors and Named Executive Officers as a group, owned less than one percent of the outstanding shares of our common stock and options exercisable within 60 days of that date.

Name	Shares Beneficially Owned(1)	
	Shares of Common Stock(2)	Options Exercisable On or Before May 31, 2005
Trevor Fetter	354,572(3)	673,109
Brenda J. Gaines	23,185(4)	
Karen M. Garrison	22,550(5)	
Van B. Honeycutt	29,980(6)	54,867
Reynold J. Jennings	68,055	647,777
John C. Kane	22,195(7)	63,235
Edward A. Kangas	22,195(8)	54,867
J. Robert Kerrey	39,149(9)	36,867
Floyd D. Loop, M.D.	30,576(10)	113,448
Mónica C. Lozano	24,953(11)	72,867
Richard R. Pettingill	13,264(12)	49,904
W. Randolph Smith	34,880	1,068,333
James A. Unruh	14,129(13)	41,139
E. Peter Urbanowicz	10,037(14)	86,110
J. McDonald Williams	22,550(15)	
Stephen D. Farber(16)	18,358	761,250
Executive officers and directors as a group (16 persons)	750,628	3,723,773

(1) Except as indicated, each individual named has sole control as to investment and voting power with respect to the securities owned.

(2) As noted in the footnotes below, some amounts in this column include stock units representing the value of the owner's deferred compensation invested in stock units at his or her election under the terms our 2001 Deferred Compensation Plan ("DCP"). These units are settled in shares of our common stock upon termination of service. (See page 16 for a description of the DCP). In addition, as noted below, the totals in this column for each non-employee director include restricted stock units which were granted under the terms of our 2001 Stock Incentive Plan ("SIP"). These restricted stock units are settled in shares of our common stock upon termination of service. (See page 15 for a description of the SIP).

(3) Includes 10,200 shares held by Mr. Fetter's spouse, 10,000 shares held in trust and 18,798 stock units representing the value of Mr. Fetter's deferred compensation invested in stock units at his election under the terms of the DCP.

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- (4) Includes 250 stock units representing the value of Ms. Gaines' deferred compensation invested in stock units at her election under the terms of the DCP and 22,550 restricted stock units granted under the SIP.
- (5) These are restricted stock units granted under the SIP.
- (6) Includes 17,785 stock units representing the value of Mr. Honeycutt's deferred compensation invested in stock units at his election under the terms of the DCP and 12,195 restricted stock units granted under the SIP.
- (7) Includes 12,195 restricted stock units granted under the SIP.
- (8) Includes 12,195 restricted stock units granted under the SIP.
- (9) Includes 23,836 stock units representing the value of Mr. Kerrey's deferred compensation invested in stock units at his election under the terms of the DCP and 12,195 restricted stock units granted under the SIP.
- (10) Includes 18,231 stock units representing the value of Dr. Loop's deferred compensation invested in stock units at his election under the terms of the DCP and 12,195 restricted stock units granted under the SIP.
- (11) Includes 12,458 stock units representing the value of Ms. Lozano's deferred compensation invested in stock units at her election under the terms of the DCP and 12,195 restricted stock units granted under the SIP.
- (12) Includes 1,069 stock units representing the value of Mr. Pettingill's deferred compensation invested in stock units at his election under the terms of the DCP and 12,195 restricted stock units granted under the SIP.
- (13) Includes 1,934 stock units representing the value of Mr. Unruh's deferred compensation invested in stock units at his election under the terms of the DCP and 12,195 restricted stock units granted under the SIP.
- (14) Includes 3,500 shares held in an Individual Retirement Account.
- (15) These are restricted stock units granted under the SIP.
- (16) Mr. Farber resigned from the position of Chief Financial Officer of the Company effective as of March 9, 2005. His stock ownership and compensation information is included in this Proxy Statement pursuant to SEC regulations because he served as one of our Named Executive Officers as of December 31, 2004.

### **Tenet's Corporate Governance Principles**

The Board believes that sound principles of corporate governance serve the best interests not only of our shareholders, but also of our other constituencies, such as patients, physicians and nurses who practice at our hospitals, our employees and the communities in which we operate our hospitals. The Board has adopted a set of Corporate Governance Principles that provide the framework for our governance. Our Corporate Governance Principles may be found on our website at [www.tenethealth.com](http://www.tenethealth.com). A written copy of our Corporate Governance Principles is also available upon request to our Corporate Secretary.

Our Corporate Governance Principles address such matters as director independence, director qualifications and responsibilities, director compensation, director and officer stock ownership and retention guidelines, CEO succession and Board performance evaluations. As part of these principles, the Board has adopted the independence standards of the New York Stock Exchange, or NYSE, as a means of determining whether directors have a material relationship with the Company. The Board reviews each director's independence annually and has made the affirmative determination that each of directors Gaines, Garrison, Kangas, Kerrey, Loop, Pettingill, Unruh and Williams has no material relationship with the Company and is independent under the independence standards adopted by the Board. The Audit, Compensation, and Nominating and Corporate Governance Committees are composed exclusively of independent directors as required by the NYSE. (See "Certain Relationships and Related Transactions" on page 34.)

#### **Tenet's Policies on Business Ethics and Conduct**

All of our employees, including our Chief Executive Officer, Chief Financial Officer, Chief Accounting Officer and Controller, are required to abide by our Standards of Conduct to ensure that our business is conducted in a consistently legal and ethical manner. These Standards of Conduct reflect our basic values and form the foundation of a comprehensive process that includes compliance with all corporate policies, procedures and practices. Our Standards of Conduct cover such areas as quality patient care, compliance with all applicable laws and regulations, appropriate use of our assets, appropriate treatment of patient and company records and avoidance of conflicts of interest. All employees are required to report incidents that they believe in good faith may be in violation of the Standards of Conduct and are encouraged to contact our toll-free Ethics Action Line when they have questions about the Standards of Conduct or other ethics concerns. The full text of our Standards of Conduct is published on our web site at [www.tenethealth.com](http://www.tenethealth.com). A written copy of our Standards of Conduct is also available upon request to our Corporate Secretary.

#### **Board and Committee Membership**

The Company is governed by our Board of Directors. Members of our Board are kept informed of our business through discussions with our Chief Executive Officer and other senior officers, by reviewing materials provided to them and by participating in meetings of the Board and its committees. Significant business decisions are generally considered by the Board as a whole. The Board met 14 times during 2004. Either the Chairman of the Board or a lead independent director is responsible for coordinating, developing agendas for, and chairing executive sessions with non-management directors. The Board regularly meets in such executive sessions. For purposes of this discussion, Mr. Fetter is considered a management director. All other directors are considered non-management directors. With the exception of Ms. Lozano, each director who served during 2004 participated in at least 75 percent of the aggregate of meetings of the Board and the committees on which he or she served, during the period he or she served as a director. All Board members are expected to attend the Company's annual meeting of shareholders. Seven of our eight directors serving at the time of last year's annual meeting attended the meeting.

The Board also operates through the following committees: Audit Committee, Compensation Committee, Nominating and Corporate Governance Committee, Quality, Compliance and Ethics Committee and Executive Committee. Currently, the Chairman of the Board serves as an *ex-officio* member of the Audit, Compensation, Nominating and Corporate Governance, and Quality, Compliance and Ethics committees. As an *ex-officio* member of these committees, he may, at his discretion, attend committee meetings, participate in discussions and vote on matters under consideration. The Board believes that participation of an *ex-officio* member in committee matters facilitates communication between the Board and the committees and enables the Chairman to remain apprised of committee matters on an ongoing basis. Each of the Board's committees, except the Executive Committee, operates under a written charter that is reviewed annually. The Board and each committee may from time to time retain independent advisors and consultants to assist the directors in carrying out their responsibilities.

The Audit Committee, Compensation Committee, Nominating and Corporate Governance Committee and Quality, Compliance and Ethics Committee charters are available for viewing on our website at [www.tenethealth.com](http://www.tenethealth.com). In addition, written copies of these charters are available upon request to our Corporate Secretary.

#### ***Audit Committee***

The Audit Committee consists of directors Unruh (Chair), Honeycutt and Kane. The Board has determined that director Unruh is the Audit Committee financial expert. The purposes of the Audit Committee are to provide Board oversight of: (1) our accounting, reporting and financial practices, including the integrity of our financial statements, (2) our compliance with legal and regulatory requirements with respect to applicable accounting and auditing matters, (3) our independent registered public accountants' qualifications, independence and performance, and (4) our internal audit function. The Audit Committee has the sole authority to select and retain our independent registered public accountants. The NYSE has adopted independence and financial literacy standards applicable to all Audit Committee members. All of the current members of the Audit Committee meet those standards. The Audit Committee met 14 times during 2004. The Audit Committee regularly meets in executive session. The Audit Committee Report may be found on page 12.

#### ***Compensation Committee***

The Compensation Committee consists of directors Kane (Chair), Honeycutt and Pettingill. The Committee's primary duties and responsibilities include establishing general compensation policies for the Company that support the Company's overall business strategies and objectives and establishing the compensation of our non-employee directors. The Committee also acts on behalf of the Board in administering, or overseeing the administration of, all our employee benefit plans except our health and welfare plans. The Committee determines which directors, officers, employees, advisors and consultants are eligible to participate in any of our active executive compensation plans, the extent of such participation and the terms and conditions under which benefits may be vested, received or exercised. With respect to our qualified retirement plans, the Committee is responsible for overseeing the investment of the plans' assets, reviewing actuarial and investment information concerning the plans, and monitoring the operation of the plans. The Committee also has the authority to amend our employee benefit plans. The Compensation Committee met 9 times during 2004. The Committee regularly meets in executive session. The Compensation Committee Report may be found on page 29.

***Nominating and Corporate Governance Committee***

The Nominating and Corporate Governance Committee consists of directors Kerrey (Chair), Loop, Lozano and Unruh. The Committee is responsible for identifying and evaluating corporate governance issues and making recommendations to the Board concerning our Corporate Governance Principles and other corporate governance matters. The Committee is also responsible for identifying and evaluating individuals qualified to become Board members and recommending to the Board candidates to stand for election or re-election as directors. The Nominating and Corporate Governance Committee met 9 times during 2004. The Committee regularly meets in executive session.

The Committee considers candidates at the recommendation of existing Board members, our management, search firms or other consultants, or shareholders. Shareholders wishing to recommend director candidates to the Board may do so by writing to the Committee in care of the Corporate Secretary at our office in Dallas, Texas, or by e-mail to [boardofdirectors@tenethealth.com](mailto:boardofdirectors@tenethealth.com).

At a minimum, director candidates should have demonstrated achievement in their particular field of endeavor, significant business or other management experience that would be of value to the Company, an interest in the provision of health care services, integrity and high ethical standards, good communication and leadership skills, and the ability and willingness to commit adequate time and attention to carry out their Board duties effectively.

The Committee evaluates candidates through background and reference checks, interviews and an analysis of each candidate's qualifications and attributes in light of the current composition of the Board and our leadership needs at the time. From time to time, the Committee may engage the services of an outside consultant to assist the Committee by conducting searches to identify candidates, evaluating candidates' qualifications, handling background and reference checks and making initial contacts with potential candidates. During 2004, the Committee engaged the services of an outside consultant to assist it in identifying and evaluating director candidates.

***Quality, Compliance and Ethics Committee***

The Quality, Compliance and Ethics Committee consists of directors Loop (Chair), Kerrey, Lozano and Pettingill. The purpose of the Committee is to assist the Board in its oversight of our policies and procedures on quality assurance, legal compliance and ethics. The Committee is responsible for overseeing our information, procedures and reporting systems to ensure that: (1) our employees, directors and operations comply with all applicable laws and regulations, particularly those applicable to health care providers; (2) we, including our directors and employees, act in accordance with appropriate ethical standards; and (3) our subsidiaries' hospitals deliver quality medical care to their patients. The Committee also reviews proposed related party transactions and determines whether such transactions are appropriate for the Board to consider. The Quality, Compliance and Ethics Committee met 5 times during 2004.

*Executive Committee*

The Executive Committee consists of directors Kangas (Chair), Fetter, Kane, Kerrey, Loop and Unruh. The Executive Committee, which did not meet during 2004, may exercise all of the powers of the Board in the management of our business and affairs when the Board is not in session, but may not (1) fill vacancies on the Board, (2) change the membership of, or fill vacancies in, any committee of the Board, (3) adopt, amend or repeal the bylaws or (4) declare dividends.

**Shareholder Communications with the Board of Directors**

Shareholders may communicate with the Board of Directors by e-mail to *boardofdirectors@tenethealth.com* or by writing to the Board care of the Corporate Secretary at our office in Dallas, Texas. Shareholder communications will be reviewed internally to determine if the shareholder's concern can best be addressed by referral to a Tenet department such as Investor Relations or Corporate Communications. All other communications will be referred to the Corporate Secretary, who will determine if the communication should be brought to the attention of the full Board, the Chair of the Board or a particular Board committee or Board member.

Other interested parties may make their concerns known to our non-management directors by following the procedures for reporting concerns to the Audit Committee set forth in our Corporate Governance Principles which are available on our website at *www.tenethealth.com*.

**AUDIT COMMITTEE REPORT**

The Audit Committee is made up of the three members named below. The Board requires that each member of the Committee be an independent director as defined by the New York Stock Exchange rules and the rules of the Securities and Exchange Commission, and each member of the Committee is independent under those criteria. In addition, the Board has determined that each Committee member is financially literate as required by the NYSE rules. The Board has also determined that director Unruh, who serves as Chair of the Committee, is an audit committee financial expert, as defined by SEC rules.

The Committee, on behalf of the Board, oversees the Company's financial reporting process. In fulfilling its oversight responsibilities, the Committee reviewed and discussed with management and the Company's independent registered public accountants, KPMG LLP, each Quarterly Report on Form 10-Q filed during fiscal year 2004 (the "Forms 10-Q"), as well as the audited consolidated financial statements and the footnotes thereto in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2004 (the "Form 10-K"), before the Forms 10-Q and Form 10-K were filed with the SEC. The Committee discussed with management the quality, not just the acceptability, of the Company's accounting principles, the reasonableness of significant estimates and judgments and the degree and quality of disclosures in the financial statements prior to the time the respective Forms 10-Q and Form 10-K were filed with the SEC. The Committee also reviewed with management and the Company's independent registered public accountants each press release concerning earnings prior to it being released.

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The Company's independent registered public accountants are responsible for expressing an opinion on the conformity of the Company's audited consolidated financial statements to accounting principles generally accepted in the United States of America. The Committee reviewed and discussed with the independent registered public accountants their judgments as to the quality, not just the acceptability, of the Company's accounting principles and such other matters as are required to be discussed by the Committee with the Company's independent registered public accountants under the standards of the Public Company Accounting Oversight Board (United States), including the matters required to be discussed by Statement on Auditing Standards No. 61 (Communication with Audit Committees) and Statement on Auditing Standards No. 90 (Audit Committee Communications). The Company's independent registered public accountants have expressed an opinion in their Report of Independent Registered Public Accounting Firm that the Company's fiscal year 2004 audited consolidated financial statements conform to accounting principles generally accepted in the United States of America.

During fiscal year 2004, the Committee was provided updates on, monitored, and discussed with management the status of the Company's compliance with the requirements of Section 404 of the Sarbanes-Oxley Act of 2002. In addition, the Committee reviewed management's assessment of the effectiveness of internal control over financial reporting as of December 31, 2004 and approved the inclusion of management's report on such assessment in its Form 10-K filing. Our independent registered public accountants have audited and also expressed an opinion on management's assessment of the effectiveness of the Company's internal control over financial reporting and an opinion on the effectiveness of the Company's internal control over financial reporting as of December 31, 2004.

The Committee discussed with the independent registered public accountants the independent registered public accountants' independence from management and the Company, and received the written disclosures and the letter from the independent registered public accountants required by Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committees). In concluding that the independent registered public accountants are independent, the Committee considered, among other factors, whether the non-audit services provided by KPMG LLP (as described below) were compatible with their independence. The Committee also retained the independent registered public accountants and made it clear to the independent registered public accountants that the independent registered public accountants report directly to the Committee and not to management.

The Committee discussed with the Company's internal auditors and independent registered public accountants the overall scopes and plans for their respective audits. The Committee met separately at various meetings in executive session with each of the internal auditors and independent registered public accountants to discuss, among other matters, the results of their audits, their evaluations of the Company's internal controls and the overall quality of the Company's financial reporting.

In reliance on the reviews and discussions referred to above, the Committee recommended to the Board that the Company's fiscal year 2004 audited consolidated financial statements be included in the Form 10-K and filed with the SEC. The Committee also recommended that the Board select KPMG LLP to serve as the Company's independent registered public accountants for fiscal year 2005.

### Members of the Audit Committee

*James Unruh, Chair*  
*Van B. Honeycutt*  
*John C. Kane*

**Independent Registered Public Accounting Firm Fees**

	<b>Year Ended December 31, 2004</b>	<b>Year Ended December 31, 2003</b>
Audit fees(1)	\$ 4,303,000	\$ 2,060,000
Audit-related fees(2)	1,956,784	5,646,228
Tax fees(3)	474,455	109,032
All other fees(4)	140,260	110,000

(1) Audit fees include professional fees paid by us to KPMG LLP in connection with the audit of our annual consolidated financial statements and KPMG LLP's review of our quarterly financial statements. For the year ended December 31, 2004, this amount also includes fees related to the audit of internal control over financial reporting, performed in relation to Section 404 of the Sarbanes-Oxley Act of 2002.

(2) Audit-related fees include fees for assurance and related services reasonably related to audits and reviews. These consisted principally of fees for audits of certain of our subsidiaries and partnerships, divestiture audits, financial statements of employee benefit plans, agreed-upon procedures, assistance with due diligence, and fees related to comfort letters, consents and reviews of filings with the SEC. For the year ended December 31, 2003, audit-related fees also include fees for assistance in documenting internal control policies and procedures over financial reporting in relation to Section 404 of the Sarbanes-Oxley Act of 2002.

(3) Tax fees consisted principally of professional fees for tax compliance, tax advice, and tax planning.

(4) All other fees consisted of various advisory services.

The Audit Committee Charter requires that the Audit Committee pre-approve or adopt procedures to pre-approve all audit and non-audit services provided to the us by our independent registered public accountants, in accordance with any applicable law, rules or regulations. The Audit Committee has pre-approved all such fees paid to KPMG LLP.

**Director Compensation**

During 2004, our non-employee directors, which include all our directors except Mr. Fetter, each received a \$65,000 annual retainer fee (pro-rated for partial year service). The non-employee directors also received \$1,500 per Board meeting and \$1,200 per committee meeting attended. Each non-employee director serving as the chair of a committee received an annual fee of \$12,000 (pro-rated for partial year service). All directors are reimbursed for travel expenses and other out-of-pocket costs incurred while attending meetings. Our Chairman of the Board, or our lead independent director if one has been appointed, receives an annual fee of \$135,000 in addition to other Board and committee compensation (including meetings of committees as to which he attends in an *ex officio* capacity).

*2001 Stock Incentive Plan*

Our 2001 Stock Incentive Plan (the "SIP"), which was approved by our shareholders at the 2001 annual meeting of shareholders, promotes our interests and those of our shareholders by strengthening our ability to attract, motivate and retain management level employees and directors with training, experience and ability, encouraging the highest level of performance, and providing management level employees and directors with a proprietary interest in our financial success and growth.

The SIP is administered by the Compensation Committee. All of our non-employee directors are eligible to participate in the SIP. Under the terms of the SIP, the Board determines awards to be granted to each non-employee director. The Board currently grants restricted stock units to non-employee directors on an annual basis pursuant to a formula under which each non-employee director receives that number of restricted stock units equal to two times the then-existing annual director retainer fee divided by the closing price of our common stock on the NYSE on the date of the grant. In 2004, this annual grant was made in October. Beginning in 2005, the restricted stock units will be automatically granted to non-employee directors on the first business day following the annual shareholder meeting.

On October 28, 2004, based on an NYSE closing price of \$10.66 per share, each non-employee director was granted 12,195 restricted stock units pursuant to the foregoing formula. Each such restricted stock unit is subject to a three-year vesting period under the terms of the SIP, provided that the units will fully vest upon a director's termination of service and are not forfeitable. Regardless of vesting status, settlement of these units will not occur until the termination of service on the Board. In addition, on the last Thursday of any month in which a new non-employee director is elected to the Board, the director receives an automatic grant equal to four times the then-existing annual director retainer fee divided by the closing price of our common stock on the NYSE on the date of the grant. On March 31, 2005, Ms. Gaines, Ms. Garrison and Mr. Williams each received 22,550 restricted stock units in accordance with this formula. Mr. Pettingill and Mr. Unruh joined the Board in 2004, prior to the effective date of this automatic grant of restricted stock units, and instead received that number of options to acquire shares of our common stock equal to two times the greater of (x) 18,000 shares of common stock and (y) the number of shares of common stock determined by dividing (i) the product of four times the then-existing annual retainer fee by (ii) the closing price of the common stock on the NYSE on the date of grant. These options vested immediately upon the date of grant. On March 25, 2004 and June 24, 2004, respectively, Mr. Pettingill received options to purchase 49,904 shares and Mr. Unruh received options to purchase 41,139 shares in accordance with this formula.

If a non-employee director is removed from office by our shareholders, is not nominated for re-election by the Board or is nominated by the Board but is not re-elected by our shareholders, any options granted under the SIP will expire one year after the date of removal or failure to be elected, unless during such one-year period the non-employee director dies or becomes permanently and totally disabled, in which case the option will expire one year after the date of death or permanent and total disability. If the non-employee director retires, the options granted under the SIP will continue to be exercisable and expire in accordance with their terms. If the non-employee director dies or becomes permanently and totally disabled while serving as a non-employee director, the options granted under the SIP will expire five years after the date of death or permanent and total disability unless by their terms they expire sooner. The maximum term of an option is 10 years from the date of grant.

The SIP also provides for all outstanding awards that are not vested fully to vest fully without restrictions in the event of certain conditions, including our dissolution or liquidation, a reorganization, merger or consolidation that results in our not being the surviving corporation, or upon the sale of all or substantially all of our assets, unless provisions are made in connection with such transaction for the continuance of the SIP with adjustments appropriate to the circumstances.

In addition, upon the occurrence of a change of control, any options held by non-employee directors that have not already vested will fully vest and any restrictions upon exercise will immediately cease. For purposes of the SIP, a change of control will have occurred if: (i) any entity is or becomes the beneficial owner directly or indirectly of 20 percent or more of our stock, or (ii) any entity makes a filing under Section 13(d) or 14(d) of the Securities Exchange Act of 1934 with respect to us which discloses an intent to acquire control of the Company in a transaction or series of transactions not approved by the Board.

#### ***Stock Ownership and Stock Option Exercise Retention Guidelines***

In March 2003, the Board adopted stock ownership guidelines that require each director to own shares of our stock with a value equal to three times the annual retainer by the later of March 11, 2008 and five years after the date on which the director joins the Board. In March 2003, the Board adopted stock option exercise retention guidelines that require directors to hold for at least one year following an option exercise the "net shares" received upon the exercise of stock options. For this purpose, "net shares" means the number of shares obtained by exercising the option, less the number of any shares sold to pay the exercise price of the option and any taxes and transaction costs due upon the exercise.

#### ***Deferred Compensation Plan***

Under our 2001 Deferred Compensation Plan (the "DCP"), directors and eligible employees may defer all or a portion of their compensation, which is defined as cash compensation from retainers, meeting fees and committee fees paid during the fiscal year. Individuals who elect to defer all or a portion of their compensation may request that the following types of investment crediting rates be applied to their deferred compensation: an annual rate of interest equal to one percent below the prime rate of interest; a rate of return based on one or more benchmark mutual funds; or a rate of return based on the performance of our common stock, designated as stock units that are payable in shares of our common stock. Deferred compensation invested in stock units may not be transferred out of stock units. Compensation deferred by directors is distributed when service on the Board terminates and is paid either in a lump sum or in equal monthly installments over a period of up to 15 years, depending on the value of such account and the instruction of the director.

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Prior to being amended by the Compensation Committee in March 2004, the DCP contained provisions that provided for a matching contribution to the deferred compensation accounts of directors who requested that their deferred compensation be invested in stock units. On each date on which a director's deferred compensation was invested in stock units, we made a contribution, which was also invested in stock units, in an amount equal to 15 percent of the amount of the director's deferral. The DCP was amended to eliminate this supplemental contribution effective as of the end of the first quarter of 2004. During the final quarter these provisions were in effect, directors Honeycutt and Kerrey elected to defer a portion of their compensation and requested that all or a portion of their deferred compensation be invested in stock units. The dollar value of our final supplementary contribution to each of their stock unit accounts during 2004 was \$5,003 for Mr. Honeycutt and \$4,463 for Mr. Kerrey. We did not make such supplementary contributions on behalf of officers or other employees.

We established a trust for the purpose of securing our obligations to make distributions under the DCP. The trust is a "rabbi trust" and as of December 31, 2004, it held 3,185,943 shares of our common stock. The trustee will make required payments to participants in the event that we fail to make such payments for any reason other than our insolvency, and may sell the shares from time to time to obtain funds for such payments. In the event of our insolvency, the assets of the trust will be subject to the claims of our general creditors. In the event of a change of control, we are required to fund the trust in an amount that is sufficient, together with all assets then held by the trust, to pay each participant the benefits to which the participant would be entitled as of the date of the change of control.

For purposes of the DCP, a change of control will have occurred if: (i) any entity is or becomes the beneficial owner directly or indirectly of 20 percent or more of our stock, or (ii) individuals who, as of August 1, 2000, constitute the Board (the "DCP Incumbent Board") cease for any reason to constitute the majority of the Board; provided that individuals nominated by a majority of the directors then constituting the DCP Incumbent Board and elected to the Board after August 1, 2000 will be deemed to be included in the DCP Incumbent Board. Individuals who initially are elected to the Board as a result of an actual or threatened election contest or proxy solicitation (other than on behalf of the DCP Incumbent Board) will be deemed not to be included in the DCP Incumbent Board.

In 2005 we will be required to amend the DCP to comply with the requirements of the American Jobs Creation Act of 2004, or the "JOBS Act", which was codified by Section 409A of the Internal Revenue Code of 1986, as amended, or the "IRS Code". Some of the changes required by the JOBS Act will include provisions delaying the payment of DCP benefits to key employees for a period of six months following a termination of employment and eliminating provisions which allow acceleration in the payment of DCP benefits. Further, if the Option Exchange Program discussed under the proposal to approve the Third Amended and Restated 2001 Stock Incentive Plan is approved by our shareholders, the DCP will be amended to permit the deferral under the DCP of the receipt of vested shares paid under the SIP.

***Directors Retirement Plan***

Our Directors Retirement Plan (the "DRP") was discontinued as to all directors joining the Board after October 6, 1999. Only non-employee director Loop participates in the DRP. All of our other non-employee directors are not eligible to participate because they joined the Board after October 6, 1999. Because Mr. Fetter is an employee director he is not eligible to participate.

Under the DRP, we are obligated to pay to a participating director an annual retirement benefit for a period of 10 years following retirement. The annual retirement benefit is based on years of service as a director and is equal to the lower of (x) the amount of the annual Board retainer (currently \$65,000) at the time an eligible director retires and (y) \$25,000, increased by a compounded rate of six percent per year from 1985 to the directors' termination of service. The retirement benefits are paid monthly.

A director's interest in the retirement benefit becomes partially vested after five years of service as a director and fully vested after 10 years of service as a director. Participants may elect to receive the retirement benefits in the form of a joint and survivor annuity.

Retirement benefits under the DRP, with certain adjustments, are paid to directors whose services are terminated for any reason other than death prior to normal retirement, so long as the director has completed at least five years of service. In the event of a change of control followed by a director's termination of service or a director's failure to be re-elected upon the expiration of his or her term in office, directors will be deemed fully vested in the DRP without regard to years of service and will be entitled to receive full retirement benefits.

***Directors Life Insurance Program***

Our Directors Life Insurance Program (the "Program") was discontinued as to all directors joining the Board after October 6, 1999. As of December 31, 2003, non-employee director Loop had elected to participate in the Program and life insurance policies had been purchased by policy owner on his life and on the life of another person designated by him. All of our other non-employee directors are not eligible to participate in the Program because they joined the Board after October 6, 1999. Because Mr. Fetter is an employee director he is not eligible to participate.

Under the Program, we may enter into a split-dollar life insurance agreement with a policy owner designated by a director providing for the purchase of a joint life, second-to-die, life insurance policy insuring the lives of the director and another person designated by the director. The amount of insurance purchased will be sufficient to provide a death benefit of at least \$1,000,000 to the beneficiaries designated by the policy owner, and to allow us to recover the premiums we have paid towards keeping the policies in force until the deaths of both the director and the designated other person.

Each year the policy owner pays to the insurer the cost of the term portion of the policy and we pay a taxable bonus to each participating director in the amount that approximates the cost of a one-year \$1,000,000 non-renewable term life insurance policy. A participating director may choose to reimburse the policy owner for the amount paid for the term portion of the policy. We pay the full cost of the policy, less the amount paid by the policy owner each year for the term portion of the policy, in annual installments over approximately seven years.

**COMPENSATION OF EXECUTIVE OFFICERS  
SUMMARY COMPENSATION TABLE**

The following table summarizes the compensation paid by us for the fiscal years ended December 31, 2004 and 2003, for the 2002 Transition Period (from June 1, 2002 to December 31, 2002) and for the fiscal year ended May 31, 2002 to our Chief Executive Officer and our four most highly compensated executive officers during fiscal year 2004 (collectively, the "Named Executive Officers").

Name and Principal Position	Year	Annual Compensation			Long-Term Compensation		
		Salary\$(1)	Bonus\$(1)	Other Annual Compensation \$(2)	Restricted Stock Awards\$(3)	Securities Underlying Options\$(4)	All Other Compensation \$(5)
Fetter CEO and President	2004	1,090,384	864,749	1,697,543(6)	1,128,281	469,333	14,330
	2003	848,539	262,500	1,250,125(6)	3,728,000(7)	350,000	33,516
	2002	332,500	-0-	-0-		450,000	-0-
	Transition 5/31/2002	n/a	n/a	n/a		n/a	n/a
Jennings Chief Operating Officer	2004	708,461	454,790	-0-	440,359	183,333	11,055
	2003	562,693	84,015	-0-		75,000	10,490
	2002	289,083	-0-	-0-		250,000	38,263
	Transition 5/31/2002	477,250	827,585	-0-		240,000	9,681
Farber Chief Financial Officer	2004	579,231	292,835	79,917(8)	360,300	150,000	27,665
	2003	540,000	81,000	83,634(8)		-0-	23,289
	2002	242,801	-0-	51,595(8)		275,000	29,960
	Transition 5/31/2002	363,991	665,280	78,399(8)		123,750	31,762
Smith President, Western Division	2004	644,885	763,830	-0-	128,099	53,333	13,237
	2003	602,308	89,937	-0-		75,000	21,718
	2002	310,750	-0-	-0-		250,000	53,894
	Transition 5/31/2002	516,750	1,216,717	-0-		240,000	10,314
Urbanowicz General Counsel	2004	467,308	235,841	231,716(9)	320,259	133,333	13,885
	2003	-0-	-0-	200,000(9)		125,000	-0-
	2002	n/a	n/a	n/a		n/a	n/a
	Transition 5/31/2002	n/a	n/a	n/a		n/a	n/a

(1) Includes compensation deferred at the election of the executive or as determined by the Compensation Committee.

(2) A -0- in this column means that no such compensation was paid other than perquisites that have not been included because their aggregate value did not meet the reporting threshold of the lesser of \$50,000 or 10% of salary plus bonus.

(3) The totals for 2004 in this column represent the value of restricted stock units granted on March 4, 2004 to Mr. Fetter based on the closing price of our common stock of \$12.02 per share on the grant date and on March 3, 2004 to the other Named Executive Officers based on the closing price of \$12.01 per share on the grant date. These units, which vest ratably on the first three anniversary dates of the grant date and are settled in shares of our common stock upon vesting, were granted in the following amounts: Mr. Fetter: 93,867, Mr. Jennings: 36,666, Mr. Farber: 30,000, Mr. Smith: 10,666, and Mr. Urbanowicz: 26,666. Unvested restricted stock units are not entitled to dividends; we currently do not pay dividends on our common stock.

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Based on the closing price of our common stock of \$10.98 per share on December 31, 2004, the value of the aggregate restricted stock and restricted stock unit holdings by Named Executive Officers at the end of fiscal year 2004 was as follows:

Name	Number of Restricted Stock Holdings	Value of Restricted Stock Holdings
Fetter	293,867	\$ 3,226,660
Jennings	36,666	\$ 402,604
Farber	30,000	\$ 329,400
Smith	10,666	\$ 117,124
Urbanowicz	26,666	\$ 292,804

(4) All stock option data reflects the impact of the stock split that occurred on June 28, 2002.

(5) The aggregate amounts set forth in "All Other Compensation" include the following: (i) matching Company contributions to the Tenet Healthcare Corporation 401(k) Retirement Savings Plan (the "401(k) Plan"), (ii) matching Company contributions to the DCP as a result of IRS limitations on amounts that may be deferred under the 401(k) Plan and (iii) certain amounts paid with respect to life, accidental death and dismemberment and long-term disability insurance policies that are provided to individuals who are eligible to participate in our Supplemental Executive Retirement Plan ("SERP"). The following table reflects the amount of each of the foregoing paid to each of the Named Executive Officers in fiscal year 2004.

	Fetter	Jennings	Farber	Smith	Urbanowicz
401(k) Plan	10,250	6,500	10,250	8,817	10,250
Deferred Compensation Plan	-0-	-0-	13,657	-0-	-0-
SERP Life and Disability Insurance	4,080	4,555	3,758	4,420	3,635

(6) The total for fiscal year 2004 includes \$1,598,462 of relocation-related expenses reimbursed to Mr. Fetter in accordance with the Company's headquarters relocation policy described in the Compensation Committee Report on page 29. The majority of these expenses consisted of the reimbursement of taxes paid by Mr. Fetter in connection with the sale of his residence. The total for fiscal year 2003 includes \$1,201,746 of relocation-related expenses, principally consisting of reimbursement of a loss on sale, reimbursed to Mr. Fetter pursuant to his November 2002 employment letter.

(7) Pursuant to a restricted stock agreement we entered into with Mr. Fetter on January 21, 2003, we granted Mr. Fetter 200,000 shares of restricted stock. A condition of this grant required Mr. Fetter to purchase 100,000 shares of our common stock in the open market. On January 21, 2003, Mr. Fetter purchased 100,000 shares of common stock and was granted 200,000 shares of unvested restricted stock. The value of this restricted stock is based on the closing price of \$18.64 per share of our common stock on the date of the grant. The restricted stock vests as follows: (1) one-third vested on January 21, 2005; (2) an additional one-third will vest on January 21, 2006; and (3) the balance will vest on January 21, 2007. Although these restricted shares would be eligible to receive dividends in the event a common share dividend was ever declared, we currently do not pay dividends on our common stock. The number and value of Mr. Fetter's restricted shares as of the end of our last completed fiscal year are included in the table in footnote 3 above.

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(8) The totals for fiscal years 2004, 2003, the 2002 Transition Period, and fiscal year ended May 31, 2002 include \$51,635, \$60,000, \$34,615 and \$60,000, respectively, of relocation-related expenses reimbursed to Mr. Farber pursuant to a relocation agreement.

(9) The total for fiscal year 2004 includes \$78,087 of relocation-related expenses reimbursed to Mr. Urbanowicz for his relocation to Santa Barbara pursuant to his December 2003 employment letter and \$96,323 of relocation expenses reimbursed to Mr. Urbanowicz for his subsequent relocation to Dallas in accordance with the Company's headquarters relocation policy described in the Compensation Committee Report on page 29. The amount for fiscal year 2003 represents a relocation assistance payment to Mr. Urbanowicz pursuant to his December 2003 employment letter.

**OPTION GRANTS DURING FISCAL YEAR 2004**

The following table sets forth information concerning options granted to the Named Executive Officers during 2004.

<b>Individual Grants</b>						
<b>Name</b>	<b>Number of Securities Underlying Options Granted(1)</b>	<b>% of Total Options Granted to Employees in 2004(2)</b>	<b>Exercise Price (\$/Share)(3)</b>	<b>Expiration Date</b>	<b>Grant Date Present Value\$(4)</b>	
Fetter	469,333	10.38	12.02	March 4, 2014	2,604,798	
Jennings	183,333	4.06	12.01	March 3, 2014	1,017,498	
Farber	150,000	3.32	12.01	March 3, 2014	832,500	
Smith	53,333	1.18	12.01	March 3, 2014	295,998	
Urbanowicz	133,333	2.95	12.01	March 3, 2014	739,998	

(1) These options vest ratably over a three-year period from the date of grant.

(2) The percentages shown are percentages of the total number of options granted to employees to purchase our common stock.

(3) All options to purchase our common stock are exercisable at a price equal to the closing price of our common stock on the date of grant.

(4) The Grant Date Present Values of the options granted to the Named Executive Officers during fiscal year 2004 were derived using a standard Black-Scholes stock option valuation model. The valuation data and assumptions used to calculate the values for the options granted to our Named Executive Officers other than Mr. Fetter were as follows:

<b>Date of Grant</b>	<b>03/03/2004</b>
Stock Price	\$ 12.01
Exercise Price	\$ 12.01
Expected Dividend Yield	0%
Expected Volatility	47.5%
"Risk Free" Interest Rate	3.06%
Expected Life (Years)	5.28
Present Value/Option	\$ 5.55



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Mr. Fetter's equity-based awards are approved by the full Board on the day following approval by the Compensation Committee of equity-based awards granted to the other Named Executive Officers. The valuation data and assumptions used to calculate the values for the options granted to Mr. Fetter were as follows:

<b>Date of Grant</b>	<b>03/04/2004</b>	
Stock Price	\$	12.02
Exercise Price	\$	12.02
Expected Dividend Yield		0%
Expected Volatility		47.5%
"Risk Free" Interest Rate		3.06%
Expected Life (Years)		5.28
Present Value/Option	\$	5.55

The Expected Volatility is derived using daily data drawn from the seven years preceding the date of grant. The Risk Free Interest Rate is the approximate yield on five- and seven-year United States Treasury Bonds on the date of grant. The Expected Life is an estimate of the number of years the option will be held before it is exercised and has been based on analyses of historical exercise patterns. The valuation model was not adjusted for nontransferability, risk of forfeiture or the vesting restrictions of the options, all of which would reduce the value if factored into the calculation.

The Black-Scholes model is one accepted method of valuing options. The actual value of the options may be significantly different and the value ultimately realized, if any, will depend on the amount by which the market price of our common stock on the date of exercise exceeds the exercise price.

### OPTION EXERCISES AND YEAR-END VALUE TABLE DECEMBER 31, 2004

The following table sets forth information concerning options exercised by each of the Named Executive Officers during 2004 and unexercised options held by each of them as of December 31, 2004.

Name	Shares Acquired on Exercise(#)	Value Realized(\$)	Number of Unexercised Options at 12/31/2004(#)		Value of Unexercised In-the-Money Options at 12/31/2004(\$)(1)	
			Exercisable	Unexercisable	Exercisable	Unexercisable
Fetter	-0-	-0-	516,665	852,668	0.00	0.00
Jennings	-0-	-0-				