

SUNLINK HEALTH SYSTEMS INC
Form PRE 14A
October 01, 2004

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

SunLink Health Systems, Inc.

(Name of Registrant as Specified In Its Charter)

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

Payment of Filing Fee (Check the appropriate box):

- No fee required.
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(1) Amount Previously Paid:

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(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

SUNLINK HEALTH SYSTEMS, INC.

900 Circle 75 Parkway, Suite 1300

Atlanta, Georgia 30339

October 11, 2004

Dear Shareholder:

You are cordially invited to attend the Annual Meeting of Shareholders which will be held at 10:00 a.m., local time, on Monday, November 8, 2004, at the Sheraton Suites Galleria, 2844 Cobb Parkway S.W., Atlanta, Georgia 30339.

The accompanying Notice of the Annual Meeting and Proxy Statement contain detailed information concerning the matters to be considered and acted upon at the meeting. The Company's 2004 Annual Report to Shareholders is also enclosed.

We hope you will be able to attend the meeting.

Whether or not you plan to attend the meeting, please execute and return the enclosed proxy card at your earliest convenience to ensure representation at the meeting. If you later find you can attend the meeting, you may then withdraw your proxy and vote in person. If you have questions or need assistance regarding your shares, please call our proxy solicitor, Georgeson Shareholder Communications, Inc., at (800) 223-2064.

Sincerely,

ROBERT M. THORNTON, JR.

President and Chief Executive Officer

SUNLINK HEALTH SYSTEMS, INC.

900 Circle 75 Parkway, Suite 1300

Atlanta, Georgia 30339

NOTICE OF 2004 ANNUAL MEETING OF SHAREHOLDERS

TO BE HELD ON NOVEMBER 8, 2004

To the Shareholders of

SUNLINK HEALTH SYSTEMS, INC.:

The Annual Meeting of Shareholders of SUNLINK HEALTH SYSTEMS, INC. will be held at 10:00 a.m., local time, on Monday, November 8, 2004, at the Sheraton Suites Galleria, 2844 Cobb Parkway S.W., Atlanta, Georgia 30339, for the purpose of considering and voting upon:

1. An amendment to the Company's Code of Regulations to:

allow the number of directors to be fixed from five to seven directors and fix the number of directors at five (5), effective at the 2005 Annual Meeting of Shareholders;

require, in the case of a five person Board, for a single class of directors elected annually; and

fix the term of the directors elected at the 2004 annual meeting for a term ending at the 2005 annual meeting, if the amendment is passed.

2. An amendment to the Company's Code of Regulations to amend the date by which shareholder nominations to the Board of Directors must be received and to require certain additional information from and with respect to potential nominees for election.
3. The election of three directors for a term not to exceed two years.
4. Such other business as may properly come before the meeting or any adjournment thereof.

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Whether or not you expect to be present, please mark, sign, date and return the enclosed proxy promptly in the envelope provided. Giving the proxy will not affect your right to vote in person if you attend the meeting.

By order of the Board of Directors of

SunLink Health Systems, Inc.

JAMES J. MULLIGAN

Secretary

October 11, 2004

SUNLINK HEALTH SYSTEMS, INC.

900 Circle 75 Parkway, Suite 1120

Atlanta, Georgia 30339

PROXY STATEMENT

FOR 2004 ANNUAL MEETING OF SHAREHOLDERS

GENERAL INFORMATION

We are providing these proxy materials to you in connection with the solicitation of proxies by the Board of Directors of SunLink Health Systems, Inc. for the 2004 Annual Meeting of Shareholders and for any adjournment or postponement of the Annual Meeting. In this Proxy Statement, we refer to SunLink Health Systems, Inc. as SunLink, the Company, we, or us.

We are holding the Annual Meeting at 10:00 a.m. local time, on Monday, November 8, 2004, at the Sheraton Suites Galleria, Atlanta, Georgia, and invite you to attend in person.

We intend to mail this Proxy Statement and a proxy card to shareholders starting on or about October 11, 2004.

VOTING INFORMATION

All shares represented by properly executed proxies received by the Board of Directors pursuant to this solicitation will be voted in accordance with the shareholder's directions specified on the proxy. If no directions have been specified by marking the appropriate places on the accompanying proxy card, the shares will be voted in accordance with the Board's recommendations which are:

FOR the amendments of the Company's Code of Regulations; and

FOR the election of Karen B. Brenner, C. Michael Ford, and Howard E. Turner, as directors of the Company for a term not to exceed two years.

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A shareholder signing and returning the accompanying proxy has power to revoke it at any time prior to its exercise by delivering to the Company a later dated proxy or by giving notice to the Company in writing or at the meeting, but without affecting any vote previously taken.

Record Date

You may vote all shares that you owned as of October 1, 2004, which is the record date for the Annual Meeting. On October 1, 2004, we had 7,077,403 common shares outstanding. Each common share is entitled to one vote on each matter properly brought before the Meeting.

Ownership Of Shares

If your shares are registered directly in your name, you are the holder of record of these shares and we are sending these proxy materials directly to you. As the holder of record, you have the right to give your proxy directly to us, give your voting instructions by telephone or by the Internet, or vote in person at the Annual Meeting. If you hold your shares in a brokerage account or through a bank or other holder of record, you hold the shares in street name, and your broker, bank or other holder of record is sending these proxy materials to you. As a holder in street name, you have

the right to direct your broker, bank or other holder of record how to vote by filling out a voting instruction form that accompanies your proxy materials. Regardless of how you hold your shares, we invite you to attend the Annual Meeting.

How To Vote

Your Vote Is Important. We encourage you to vote promptly. Internet and telephone voting is available through 5:00 p.m. Eastern time on Friday, October 5, 2004 for all shares. You may vote in one of the following ways:

By Telephone: If you are located in the U.S., you can vote your shares by calling the toll-free telephone number on your proxy card or in the instructions that accompany your proxy materials. You may vote by telephone 24 hours a day. The telephone voting system has easy-to-follow instructions and allows you to confirm that the system has properly recorded your votes. If you vote by telephone, you do not need to return your proxy card.

By Internet: You can also vote your shares by the internet. Your proxy card indicates the web site you may access for internet voting. You may vote by the internet 24 hours a day. As with telephone voting, you will be able to confirm that the system has properly recorded your votes. If you are an owner in street name, please follow the internet voting instructions that accompany your proxy materials. You may incur telephone and internet access charges if you vote by the internet.

By Mail: If you are a holder of record, you can vote by marking, dating, and signing your proxy card and returning it by mail in the enclosed postage-paid envelope. If you hold your shares in street name, please complete and mail the voting instruction card.

At The Annual Meeting: If you vote your shares now it will not limit your right to change your vote at the Annual Meeting if you attend in person. If you hold your shares in street name, you must obtain a proxy, executed in your favor, from the holder of record if you wish to vote your shares at the Meeting.

All shares that have been properly voted and not revoked will be voted at the Meeting. If you sign and return your proxy card without any voting instructions, your shares will be voted as the Board of Directors recommends.

Revocation Of Proxies: You can revoke your proxy at any time before your shares are voted if you (1) submit a written revocation to our Secretary; (2) submit a later-dated proxy (or voting instructions if you hold shares in street name), (3) provide subsequent telephone or internet voting instructions or (4) vote in person at the Meeting.

Quorum And Required Vote

Quorum: We will have a quorum and will be able to conduct the business of the Annual Meeting if the holders of a majority of the votes that shareholders are entitled to cast are present at the Meeting, either in person or by proxy.

Votes Required For Proposals: To elect directors and adopt the other proposals, the following proportion of votes is required:

To elect the Directors, a plurality of the votes cast.

To adopt the changes to our Code of Regulations, the affirmative vote of two-thirds of the shares eligible to vote on such proposal.

Routine And Non-Routine Proposals: American Stock Exchange rules determine whether proposals presented at the shareholder meetings are routine or not routine. If a proposal is routine, a broker or other entity holding shares for an owner in street name may vote for the proposal without voting instructions from the owner.

If a proposal is not routine, the broker or other entity may vote on the proposal only if the owner has provided voting instructions. A broker non-vote occurs when the broker or other entity is unable to vote on a proposal because the proposal is not routine and the owner does not provide any instructions.

The American Stock Exchange has informed us that the election of directors is a routine item. The American Stock Exchange has also informed us that the proposal to amend the Code of Regulations is not a routine item.

How We Count Votes: In determining whether we have a quorum, we count abstentions and broker non-votes as present and entitled to vote.

In counting votes on the proposals:

We do not count abstentions or broker non-votes, if any, as votes cast for the election of Directors, but we do count votes withheld for one or more nominees as votes cast.

We do not count abstentions as votes cast on our proposal to amend our Code of Regulations. We also do not count broker non-votes, if any, as votes cast on this proposal. However, because the proposal requires the approval of two-thirds of the outstanding shares, abstentions and broker non-votes will have the same impact as a negative vote on the outcome of this proposal.

CORPORATE GOVERNANCE

Our business is managed by the Company's employees under the direction and oversight of the Board of Directors. Except for Mr. Thornton, none of our Board members is an employee of the Company. The Board limits membership on the Audit Committee and Executive Compensation Committee to independent non-management directors. We keep Board members informed of our business through discussions with management, materials we provide to them, visits to our offices, and hospitals, and their participation in Board and Board committee meetings.

The Board of Directors has adopted the charters of the Board Committees and the Company's Code of Ethics (the SunLink Health Systems, Inc. Code of Conduct) for employees, including our principal executive officer, principal financial officer, and principal accounting officer, which provides the framework for the governance of the Company.

A complete copy of the charters of the Board Committees and the Code of Conduct for employees may be found on the Company's web site at <http://Sunlinkhealth.com>. The Audit Committee charter and the Compensation Committee charter each are also attached as Appendices to this proxy statement. Copies of these materials also are available without charge upon written request to the Secretary of the Company.

Summary of the Corporate Governance Principles

Independence

A majority of the Board of Directors shall consist of independent, non-management directors who meet the criteria for independence required by the American Stock Exchange. Under such rules, a director is independent if he or she does not have a material relationship with the Company.

The Board of Directors has determined that as of October 1, 2004, 5 of the Company's 7 incumbent directors are independent under these guidelines: Ms. Brenner and Messrs. Baileys, Burleson, Ford, and Hall. The one other non-management director, Mr. Turner, as well as Mr. Thornton, continue to participate in the Board's activities and provide valuable insights and advice.

The non-management directors shall meet periodically in executive session without the Chief Executive Officer present.

The executive sessions of non-management directors shall be presided over by the director who is the chairman of the Committee responsible for the issue being discussed. General discussions, such as the review of the Company's overall performance, shall be presided over by a director elected by the majority of the non-management directors.

Non-management directors shall have access to individual members of management or to other employees of the Company on a confidential basis. Directors shall also have access to Company records and files, and directors may contact other directors without informing Company management of the purpose or even the fact of such contact.

Business Combinations

In the event SunLink receives any formal written offer(s) to purchase more than 20% of SunLink's outstanding common stock, such proposal will be evaluated by the Board of Directors, who may delegate the evaluation of such offer to a committee of the Board of Directors (which may be its Executive Committee), so long as such committee is comprised of a majority of independent directors. Such committee will be empowered to retain such legal and financial advisors as it may deem necessary to advise it and the Board in respect of such offer(s).

In the event of any proposed business combination involving SunLink, the Executive Compensation Committee is authorized to retain an independent financial advisor to evaluate and make recommendations to the Executive Compensation Committee concerning any severance package proposed for any of SunLink's officers or Board members in connection with any proposed business combination and the financial effect thereof.

Director Share Ownership

The Company believes that each director should have a personal investment in the Company. Each outside director (or future outside director, as the case may be) is required to own at least one thousand (1,000) shares of SunLink common stock. Each outside director (or future outside director, as the case may be) must maintain ownership of such number of shares of common stock until such outside director ceases to serve as a member of the Board.

Annual Meeting Attendance

The Board of Directors encourages all its members to attend the Annual Meeting of Shareholders. In November 2003, all director nominees and all continuing directors were present at the Annual Meeting of Shareholders.

Communicating with Directors

The Board of Directors has provided the means by which shareholders may send communications to the Board or to individual members of the Board. Such communications, whether by letter, e-mail or telephone, should be directed to the Secretary of the Company who will forward them to the intended recipients. However, unsolicited advertisements or invitations to conferences or promotional material, in the discretion of the Secretary or his designee, may not be forwarded to the Directors.

If a shareholder wishes to communicate to the Chair of the Audit Committee about a concern relating to the Company's financial statements, accounting practices or internal controls, the concern should be submitted in writing to the Chairman of the Audit Committee in care of the Company's Secretary at the Company's headquarters address. If the concern relates to the Company's governance practices, business ethics or corporate conduct, the concern likewise should be submitted in writing to the Chairman of the Audit Committee in care of the Company's Secretary at the Company's headquarters address. If the shareholder is unsure as to which category his or her concern relates, he or she may communicate it to any one of the independent directors in care of the Company's Secretary.

The Company's whistleblower policy prohibits the Company or any of its employees from retaliating or taking any adverse action against anyone for raising a concern. If a shareholder or employee nonetheless prefers to raise his or her concern in a confidential or anonymous manner, the concern may be directed to the Office of the

Technical and Compliance Services at the Company's headquarters or by telephone at 1-866-244-5952. The Vice President for such services or his designee will refer the concern to the Compliance Committee, or if appropriate, the Chair of the Audit Committee who will assure that the matter is properly investigated.

ITEMS TO BE VOTED ON BY SHAREHOLDERS

Item 1 Amendment of the Company's Code Of Regulations regarding Number of Directors and Term of Office

The principal purpose of Item 1 is, and its effect if approved will be, to amend the Company's Code of Regulations to decrease the size of the Company's Board of Directors to five directors, and to fix the maximum size of the Board at seven Directors to eliminate the classification of the Board into two classes when the size of the Board is decreased to five and to fix the term of the class of directors being elected at our current annual meeting to a term expiring at the 2005 annual meeting, if amendment is adopted.

The Board is presently composed of seven directors. The Board of Directors has unanimously approved and recommended adoption of an amendment to the Company's Code of Regulations to amend the Code of Regulations to effect the foregoing actions.

The Company's Board of Directors is proposing a reduction in the number of directors because it believes a smaller board would provide more flexibility in scheduling Board meetings and would reduce slightly the Company's corporate governance cost. The Board believes the deliberative function, broad representation on the Board, and compliance with independence requirements would not be impaired by adopting a smaller sized Board. In the event the size of the Board is reduced to five members, Ohio law does not authorize the retention of a classified board for a board of directors of such size; accordingly, the classification of the Board into the two classes would terminate and all directors would be elected at each annual meeting. In such event, it might be slightly easier for a third party to effect a change in control of the Company which the Board of Directors has not recommended. A reduction in the size of the Board will not result in any change to the Company's shareholders rights plan and the Board believes that, even after any reduction in size of the Board and declassification of the Board of Directors, that the Company will continue to retain sufficient protections in connection with any unsolicited proposal to acquire the Company which the Board may determine to not be in the best interest of the Company and its shareholders.

In the event Item 1 is approved, Sections 1 and 2 of Article III of the SunLink Code of Regulations would read as follows:

Section 1. Number of Directors and Term of Office. Subject to Section 2 of this Article III, effective at the annual meeting of shareholders to be held in 2005, the number of directors of the Corporation shall be fixed at five (5), each director to hold office until the next annual meeting of shareholders and until his (her) successor is elected and qualified.

Section 2. Change in Number of Directors. The number of authorized directors may be established or changed either by the affirmative vote of the holders of record of two-thirds of the voting power of the Corporation at a meeting of shareholders called for that purpose and for the purpose of electing directors, or by the affirmative vote of a majority of the directors in office; provided, however, that in no event shall the number of directors be fixed at less than five (5) or more than seven (7). If the number of directors shall be fixed at six (6), then the directors shall be divided into two classes, each of which shall consist of three (3) directors. If the number of

directors shall be fixed at seven (7), then the directors shall be divided into two classes, which shall consist of three (3) and four (4) directors, respectively. If the number of directors shall be fixed at either six (6) or seven (7), then each class shall be elected in alternate years to hold office until the second annual meeting of shareholders following its election. No reduction in the number of directors, either by the shareholders or the directors, shall itself have the effect of shortening the term of any incumbent director.

If the proposed amendments to Sections 1 and 2 of Article III of the Code of Regulations of the Corporation relating to directors shall be adopted at the annual meeting of shareholders held in 2004, then the three directors elected at such meeting shall be elected to hold office only until the annual meeting of shareholders of the Corporation to be held in 2005.

Item 2 Amendment of the Company's Code of Regulations regarding Advance Notice of Shareholder Nominations

The principal purpose of Item 2 is, and its effect if approved will be, to amend the Company's Code of Regulations to change the time during which shareholders may submit nominations for the election of directors from within a 50 to 75 day period prior to, the anniversary of the prior year's meeting to within a 90 to 120 day period prior to the anniversary of the prior year's meeting.

The Board of Directors has unanimously approved and recommended adoption of an amendment to the Company's Code of Regulations to amend the Code of Regulations to permit the foregoing actions.

The Board of Directors is proposing the change because the current time periods could result in a requirement for notice for the nomination of directors to be given within a time period which would be otherwise inconsistent with the time periods in which other shareholder proposals are required to be given. The amended language also requires that evidence of a proposed nominee's willingness to serve be provided.

In the event Item 2 is approved, Section 5 of Article III of the Code of Regulations would read as follows:

Section 5. Nominations. Only persons who are nominated in accordance with the following procedures shall be eligible for election as directors. Nominations of persons for election as directors of the Corporation may be made at a meeting of shareholders (i) by or at the direction of the Board of Directors or by any committee or person appointed by the Board of Directors or (ii) by any shareholder of the Corporation entitled to vote for the election of directors at the meeting who complies with the notice procedures set forth in this Section 5. Any nomination other than those governed by clause (i) of the preceding sentence shall be made pursuant to timely notice in writing to the Secretary of the Corporation. To be timely, a shareholder's notice shall be delivered to or mailed and received at the principal executive offices of the Corporation not less than 90 days nor more than 120 days prior to the one year anniversary of the date of the annual meeting of shareholders of the previous year; provided, however, that in the event that the annual meeting is called for a date which is not within 30 days before or after such anniversary date, notice by the shareholder to be timely must be so received not later than the close of business on the 10th day following the day on which such notice of the date of the meeting is first given or made to the shareholders or disclosed to the general public (which disclosure may be effected by means of a publicly available filing with the Securities and Exchange Commission), whichever occurs first. Such shareholder's notice to the Secretary shall set forth (a) as to each person whom the shareholder proposes to nominate for election as a director (i) the name, age, business address and residence address of such person, (ii) the principal occupation or employment of such person, (iii) the

class and number of any shares of the Corporation which are beneficially owned by such person, (iv) a description of all arrangements and understandings between the shareholder and each proposed nominee and any other person or persons (including their names) pursuant to which the nomination(s) are to be made by such shareholder, (v) any other information relating to such person that is required to be disclosed in solicitations for proxies for election of directors pursuant to any then existing rule or regulation promulgated under the Securities Exchange Act of 1934, as amended and (vi) the written consent of each proposed nominee to be named as a nominee to serve as a director of the Corporation if elected, together with an undertaking, signed by each proposed nominee, to furnish to the Corporation any information it may request upon the advice of counsel for the purpose of determining such proposed nominee's eligibility to serve as a director; and (b) as to the shareholder giving the notice (i) the name and record address of such shareholder and (ii) the class and number of shares of the Corporation which are beneficially owned by such shareholder. The Corporation may require any proposed nominee to furnish such other information as may reasonably be required by the Corporation to determine the eligibility of such proposed nominee to serve as a director. No person shall be eligible for election as a director unless nominated as set forth herein. The chairman of the meeting shall, if the facts warrant, determine and declare to the meeting that a nomination was not made in accordance with the foregoing procedures and if he should so determine, he shall so declare to the meeting and the defective nomination shall be disregarded.

Item 3 Election Of Directors

The Company's Board of Directors is presently comprised of seven members. One class of Directors is normally elected at each Annual Meeting of Shareholders for a term of two years; however, if Item 1 is approved, the directors elected at this annual meeting will serve until the 2005 annual meeting, otherwise, they will serve until the 2006 annual meeting.

At the 2004 Annual Meeting, shareholders will elect three directors who will hold office until the Annual Meeting of Shareholders in 2005 or 2006, as described above. The Board of Directors has nominated Karen B. Brenner, C. Michael Ford and Howard E. Turner, who are presently directors of the Company, for election to terms of office for up to two years.

It is the intention of the proxy agents named in the proxy, unless otherwise directed, to vote such proxy for the election of Karen B. Brenner, C. Michael Ford and Howard E. Turner. Should any of such nominees be unable to accept the office of director, an eventuality which is not anticipated, proxies may be voted with discretionary authority for a substitute nominee or nominees designated by the Board of Directors.

The following table sets forth certain information about the nominees for election and the directors whose terms of office will continue after the meeting.

<u>Current Nominees:</u>	<u>Name and Offices</u>	
	<u>Presently Held with Company</u>	<u>Director Since</u>
Karen B. Brenner	Director	1996
C. Michael Ford	Director	1999
Howard E. Turner	Director	1999

Directors Whose Term of Office Expires in 2005:

Robert M. Thornton, Jr.	Director, Chairman, President, and Chief Executive Officer	1996
Dr. Steven J. Baileys	Director	2000
Michael W. Hall	Director	2001
Gene E. Burleson	Director	2003

Certain information concerning each person listed in the above table, including his or her principal occupation for at least the last five years, is set forth below.

Karen B. Brenner, 52, has been President of Fortuna Asset Management, LLC an investment advisory firm located in Newport Beach California, since 2000. Fortuna Asset Management, LLC succeeded to the business of Fortuna Advisors, Inc., which Ms. Brenner formed and operated from 1993 to 2000. Ms. Brenner is also a director of Creative Bakeries, Inc.

C. Michael Ford, 65, has been the owner and Chairman of the Board of Directors of Montpelier Corporation, a venture capital and real estate holding company, since October 1990. Mr. Ford has served as Chief Executive Officer and Chief Financial Officer of Newtown Macon, Inc. since October 2002. Mr. Ford was Chairman of the Board of In Home Health, Inc. from February 2000 to December 2000, and the Interim Chief Executive Officer from February 2000 to December 2000, except for the period June 27 through July 7, 2000. Mr. Ford served as Vice President of Development of Columbia/HCA Healthcare Corporation from September 1994 to September 1997, and was Vice President of Marketing of Meditrust Corp. from October 1993 to September 1994.

Howard E. Turner, 62, has been a partner in the law firm of Smith, Gambrell & Russell, LLP, since 1971, where he is a member of the firm's executive committee. Mr. Turner has served as a director of Avlease, Ltd., a lessor of large commercial aircraft, and currently serves as an officer and director of Historic Motorsports Holdings, Ltd. Mr. Turner provides legal services to the Company through the law firm, Smith, Gambrell & Russell, LLP, as requested by the Company. Smith, Gambrell & Russell, LLP received \$790,012 for legal services rendered during the Company's fiscal year ended June 30, 2004.

Robert M. Thornton, Jr., 55, has been Chairman and Chief Executive Officer of the Company since September 10, 1998, President since July 16, 1996 and was the Chief Financial Officer from July 18, 1997 through August 31, 2002. From October 1994 to the present, Mr. Thornton has been a private investor and, since March 1995, Chairman and Chief Executive Officer of CareVest Capital, LLC, a private investment and management services firm. Mr. Thornton was President, Chief Operating Officer, Chief Financial Officer and a director of Hallmark Healthcare Corporation from November 1993 until Hallmark's merger with Community Health Systems, Inc. in October 1994. From October 1987 until November 1993, Mr. Thornton was Executive Vice President, Chief Financial Officer, Secretary, Treasurer and a director of Hallmark.

Dr. Steven J. Baileys, 50, has been Chairman of the Board of Directors of SafeGuard Health Enterprises, Inc., a public dental care benefits company, since 1995. Dr. Bailey was Chief Executive Officer of Safeguard from 1995 to February 2000, its President from 1981 until 1997, and its Chief Operating Officer from 1981 until 1995. Dr. Baileys is licensed to practice dentistry in the State of California.

Michael W. Hall, 55, is a private investor and was Chairman and Chief Executive Officer of Pyramed Health System, Inc., a healthcare consulting firm, from August 1996 through March 31, 2001. From April 1991 to August

1996, Mr. Hall was Chief Operating Officer and Executive Vice President of Southern Health Management Corporation, a healthcare management company specializing in rural healthcare. Prior to its sale to NetCare Health Systems, Inc., in 1996 Southern Health Management Corporation owned three of SunLink's seven hospitals.

Gene E. Burlison, 63, served as a director of HealthMont Inc., a Tennessee corporation, from its inception in September 2000 until its acquisition by SunLink in October 2003. Mr. Burlison served as the Chairman of the Board of Directors of Mariner Post-Acute Network, Inc., a diversified provider of long-term and specialty health care services, from February 2000 to June 2002. Mr. Burlison served as the Chief Executive Officer and as a director of Vitalink Pharmacy Services, Inc. from February 1997 to August 1997. He served as Chairman of the Board of Directors of GranCare, Inc., a provider of long-term and specialty health care services, which subsequently became a part of Mariner Post-Acute Network, Inc., from January 1994 to November 1997, and as its Chief Executive Officer from December 1990 to February 1997. His previous experience also includes serving as the President and Chief Operating Officer of American Medical International, Inc., an acute-care hospital company and a predecessor to Tenet Healthcare Corporation. Mr. Burlison also currently serves on the Board of Directors of Alterra Healthcare Corporation, an operator of assisted living facilities, Deckers Outdoor Corporation, a shoe manufacturer, and various other privately-held companies.

INFORMATION CONCERNING THE BOARD OF DIRECTORS

Board Meetings

The Board of Directors held 10 meetings and took action twice by unanimous written consent during fiscal 2004. The Board has an Executive Committee, an Audit Committee and an Executive Compensation Committee. All our Directors attended 75% or more of the meetings of the Board and Board committees on which they served in our fiscal year ended June 30, 2004.

Membership On Board Committees

This table lists our three committees, the Directors who currently serve on them, and the number of committee meetings held in the fiscal year ended June 30, 2004:

Name	Audit	Compensation	Executive
Dr. Baileys		•	
Ms. Brenner	•	C	•
Mr. Burlison		•	
Mr. Ford	C		
Mr. Hall	•		
Mr. Thornton			C
Mr. Turner			•
2004 Meetings	7	1	0

C = Chair
 • = Member

Audit Committee

The Audit Committee's primary function is to assist the Board of Directors in fulfilling its oversight responsibilities by reviewing:

the integrity of the financial statements and other financial information provided by the Company to the Company's shareholders, the general public and the Securities and Exchange Commission (SEC);

the Company's systems of internal controls regarding finance, accounting, legal and compliance that management and the Board have established;

the Company's auditing, accounting and financial reporting processes generally; and

the independence and performance of the Company's external auditors.

All three members of the Audit Committee are independent as defined in Section 121(A) of the American Stock Exchange's listing standards and Rule 10A-3 of the Securities Exchange Act of 1934. The Board has also determined that Mr. Ford meets the requirements for being an audit committee financial expert as defined by SEC regulations adopted in January 2003.

Compensation Committee

Prior to September 30, 2004, the Executive Compensation Committee acted in an advisory capacity to the Board of Directors with respect to the Company's executives according to the Executive Compensation Committee charter. Under its current charter, the Compensation Committee has the power and authority of the Board to perform and shall perform the following duties and responsibilities:

develop guidelines and, on an annual basis, review the compensation and performance of the Company's officers, review and approve corporate goals relevant to the compensation of the Chief Executive Officer, evaluate the Chief Executive Officer's performance in light of these goals and objectives, set the Chief Executive Officer's compensation based on this evaluation, evaluate the performance of the Company's senior executive officers and approve their annual compensation, and produce an annual report on executive compensation for inclusion in the Company's annual proxy statement, in accordance with all applicable rules and regulations;

make recommendations to the Board with respect to incentive compensation plans and equity-based plans, and administer such plans by establishing criteria for the granting of options to the Company's officers and other employees and reviewing and approving the granting of options in accordance with such criteria;

review and approve plans for managerial succession of the Company;

review director compensation levels and practices, and recommend to the Board, from time to time, changes in such compensation levels and practices (including retainers, committee fees, stock options and other similar items as appropriate);

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annually review and reassess the adequacy of the Compensation Committee Charter and recommend any proposed changes to the Board for approval; and

perform any other activities consistent with the Compensation Committee Charter, the Company's Bylaw and governing law as the Committee or the Board deem appropriate.

All three members of the Compensation Committee are independent, as defined in Section 121(A) of the American Stock Exchange's listing standards.

Executive Committee

The Executive Committee is empowered to exercise all of the authority of the Board of Directors except as to matters not delegable to a committee under the General Corporation Law of Ohio.

Nomination Procedures

The Board does not have a Nominating Committee but has adopted a nominating resolution which provides that the Company believes it to be in its best interest and the best interest of its shareholders to authorize the entire Board to identify and nominate directors to serve on the Company's Board so long as pursuant to American Stock Exchange rules, director nominees so selected, are approved by a majority of the independent directors, and when vacancies occur on the Board, the Board shall actively seek individuals qualified to become Board members based on business experience, professional expertise, industry experience, and geographic representation. Shareholders who wish to submit nominees for election at an annual or special meeting of shareholders should follow the procedure generally described on page 26 and more particularly, in the Company's Code of Regulations. The Board of Directors applies the same standards in considering candidates submitted by shareholders as it does in evaluating candidates submitted by members of the Board of Directors. The Board does not have a separate policy with regard to the consideration of candidates recommended by shareholders other than the process provided in the nominating resolution.

COMPENSATION OF DIRECTORS

Cash Compensation. Each non-employee director receives a monthly fee of \$1,250 for services as a director. In addition, he or she receives \$1,000 for attendance at a meeting of the Board of Directors, \$600 for attending an Executive Committee, Executive Compensation Committee or Audit Committee meeting, \$600 for participating in telephone meetings, and a monthly fee of \$600 if he or she serves on the Audit Committee. The Chairman of the Audit Committee receives \$1,000 per month. We also reimburse customary expenses for attending Board, committee, and shareholder meetings.

Non-Cash Compensation. Each non-employee director is eligible to participate in the Company's Outside Directors Stock Ownership and Stock Option Plan. In December 2003, each of the Company's non-employee directors was granted options to purchase 6,250 shares of SunLink's common stock at an exercise price of \$2.90 per share. One-third of such options vest each year, beginning with the date of the grant.

Management Directors. We do not pay directors who are also our employees any additional compensation for serving as a director other than customary reimbursement of expenses.

Other Arrangements. Mr. Turner is a partner of the law firm of Smith, Gambrell & Russell, LLP. Mr. Mulligan, a director emeritus and our Secretary, is a partner of the law firm of Mulligan & Mulligan. These firms provided legal services to the Company in the fiscal year ended June 30, 2004 at customary rates and they continue to provide such services to the Company in the fiscal year ending June 30, 2005.

EXECUTIVE OFFICERS

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Our executive officers, as of October 1, 2004, their positions with the Company or our subsidiaries and the ages of such executive officers are as follows:

<u>Name</u>	<u>Office</u>	<u>Age</u>
Robert M. Thornton, Jr.	Director, Chairman of the Board of Directors, President and Chief Executive Officer	55
Joseph T. Morris	Chief Financial Officer	56
Harry R. Alvis	Chief Operating Officer	59
Jerome D. Orth	Vice President, Technical and Compliance Services	56
Mark J. Stockslager	Corporate Controller and Principal Accounting Officer	45

All of our executive officers hold office for an indefinite term, subject to the discretion of the Board of Directors.

Biographical information for our non-director executive officers is set forth below:

Joseph T. Morris has been President and Chief Financial Officer of SunLink Healthcare Corp. since February 1, 2001 and Chief Financial Officer of SunLink Health Systems, Inc. since September 1, 2002. Mr. Morris provided turn-around operational and financial consulting services for several healthcare companies, including Cambio Health Solutions and New American Healthcare Corporation, from June 1999 through January 2001. From January 1997 through May 1999, Mr. Morris was Executive Vice President and Chief Financial Officer of ValueMark HealthCare Systems, Inc., a privately-held owner-operator of psychiatric hospitals. From August 1993 through December 1996, Mr. Morris was President of Affiliated Health Management, Inc., and from February 1990 to July 1993, was Senior Vice President, Hospital Financial Operations, for Hallmark Healthcare Corporation.

Harry R. Alvis has been Senior Vice President of Operations of SunLink Healthcare Corp. since February 1, 2001 and Chief Operating Officer of SunLink Health Systems, Inc. since September 1, 2002. Mr. Alvis provided turn-around operational consulting services for New American Healthcare Corp. from March 2000 through January 2001. From August 1997 through August 1999, Mr. Alvis was Chief Executive Officer of River Region Health Systems in Vicksburg, Mississippi, a healthcare facility owned by Quorum Health Group, Inc. From August 1995 through August 1997, Mr. Alvis was the Chief Executive Officer of Greenview Hospital in Bowling Green, Kentucky, a healthcare facility owned by Hospital Corporation of America. Mr. Alvis' previous experience was in Mayfield, Kentucky as the Chief Executive Officer of Pinelake Medical Center from November 1987 through August 1995. Pinelake was a healthcare facility owned by HealthTrust, Inc.

Jerome D. Orth has been Vice President, Technical & Compliance Services for the Company since February 1, 2001. From January 1995 through January 2001, Mr. Orth was Vice President of Hospital Financial Operations for ValueMark Healthcare Systems, Inc., a privately-held owner-operator of psychiatric hospitals. From February 1987 through October 1994, Mr. Orth held various positions with Hallmark Healthcare Corporation, including Executive Director, Hospital Financial Management and Executive Director, Management Information Systems. Prior to 1987, Mr. Orth spent 12 years in various accounting, third party reimbursement and management positions with Hospital Corporation of America.

Mark J. Stockslager has been Corporate Controller since November 6, 1996 and Principal Accounting Officer since March 11, 1998. He has been associated continuously with our accounting and finance operations since June 1988 and has held various positions, including Manager of U.S. Accounting, from June 1993 until November 1996. From June 1982 through May 1988, Mr. Stockslager was employed by Price Waterhouse & Co.

OWNERSHIP OF OUR COMMON SHARES
Common Shares Owned By Certain Beneficial Owners

Set forth below is certain information concerning the persons or entities known by the Board of Directors of the Company to be the beneficial owners of more than 5% of the outstanding Common Shares of the Company as of October 1, 2004.

<u>Name and Address</u>	<u>Common Shares Beneficially Owned As of October 1, 2004 (1)</u>	
	<u>Shares</u>	<u>% of Class</u>
Steven J. Baileys (2) 30691 Hunt Club Drive San Juan Capistrano, CA 92675	624,781(3)	8.8
Robert M. Thornton, Jr. c/o SunLink Health Systems, Inc. 900 Circle 75 Parkway, Suite 1300 Atlanta, GA 30339	454,724(4)	6.3
Joseph M. Girard The Whale House P. O. Box 6648 Malibu, CA 90264	388,700(5)	5.5

(1) Under applicable SEC regulations, shares are treated as beneficially owned if a person has or shares voting or investment power with respect to the shares or has a right to acquire the shares within 60 days of October 1, 2004. Unless otherwise indicated, sole voting power and sole investment power are exercised by the named person. In calculating % of Class for a person, shares which may be acquired by a person within such 60-day period are treated as owned by such person and as outstanding shares in the calculation of percentage ownership for such person.

(2) Steven J. Baileys is the managing member of Beilihis Investments, LLC, which is a private investment firm.

(3) Includes 346,249 shares held by Beilihis Investments, LLC. Dr. Baileys is managing member of Beilihis. Includes 9,583 shares that may be acquired upon the exercise of options exercisable within 60 days of October 1, 2004.

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- (4) Includes 180,000 shares that may be acquired under options exercisable within 60 days of October 1, 2004.

- (5) Information with respect to Mr. Girard and his holdings is based on a Schedule 13D dated February 12, 2004, which contained information as of such date. Mr. Girard reports that he has sole voting and dispositive power with respect to, and is the beneficial owner of, 388,700 shares.

Common Shares Owned By Management

The following table sets forth the number of shares of common stock of the Company beneficially owned as of October 1, 2004 by each named executive officer listed in the Summary Compensation Table on page 18, by each current director, and by all directors, nominees and executive officers of the Company as a group.

<u>Name</u>	<u>Common Stock Beneficially Owned As of October 1, 2004</u>	
	<u>Number</u>	<u>% of Class</u>
Robert M. Thornton, Jr. Director, Chairman, President and Chief Executive Officer	454,724(1)	6.3
Joseph T. Morris Chief Financial Officer	118,650(2)	1.7
Harry R. Alvis Chief Operating Officer	73,750(3)	1.0
Jerome D. Orth Vice President Technical and Compliance Services	33,500(4)	*
Mark J. Stockslager Corporate Controller	84,514(5)	1.2
Steven J. Baileys Director	624,781(6)	8.8
Karen B. Brenner Director	116,327(7)	1.6
Gene E. Burleson Director	72,041(8)	1.0
C. Michael Ford Director	44,583(9)	*
Michael W. Hall Director	17,683(10)	*