

SUNLINK HEALTH SYSTEMS INC
Form DEF 14A
October 12, 2010
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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:

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| <input type="checkbox"/> | Preliminary Proxy Statement | <input type="checkbox"/> | Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2)) |
| <input checked="" type="checkbox"/> | Definitive Proxy Statement | | |
| <input type="checkbox"/> | Definitive Additional Materials | | |
| <input type="checkbox"/> | 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) Title of each class of securities to which transaction applies:

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

(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:

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

(3) Filing Party:

(4) Date Filed:

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SUNLINK HEALTH SYSTEMS, INC.

900 Circle 75 Parkway, Suite 1120

Atlanta, Georgia 30339

October 12, 2010

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, 2010, at the Renaissance Waverly Hotel, 2450 Galleria Parkway, 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 2010 Annual Report to Shareholders is also enclosed.

We hope you will be able to attend the meeting.

Shareholders of record at the close of business on September 17, 2010 are entitled to vote at the annual meeting. Whether or not you plan to attend the meeting, we encourage you to read the proxy statement and vote as soon as possible. You may vote:

by following the Internet voting procedures described in these proxy materials;

by following the telephone voting procedures described in these proxy materials; or

by executing and returning the enclosed proxy card at your earliest convenience to ensure representation at 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 or vote via telephone or the Internet. If you later find you can attend the meeting, you may then withdraw your proxy and vote in person.

Sincerely,
ROBERT M. THORNTON, JR.

President and Chief Executive Officer

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SUNLINK HEALTH SYSTEMS, INC.

900 Circle 75 Parkway, Suite 1120

Atlanta, Georgia 30339

NOTICE OF 2010 ANNUAL MEETING OF SHAREHOLDERS

TO BE HELD ON NOVEMBER 8, 2010

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, 2010, at the Renaissance Waverly Hotel, 2450 Galleria Parkway, Atlanta, Georgia 30339, for the purpose of considering and voting upon:

1. The election of four directors for a term of two years;
2. To ratify the appointment of Cherry, Bekaert & Holland, L.L.P. as our independent registered public accounting firm for fiscal year 2011;
and

To transact such other business that may properly come before the meeting.

Holders of record of the common shares of SunLink at the close of business on September 17, 2010 will be entitled to notice of and to vote at the meeting. You may vote by mail, telephone or the Internet to the extent described in the Company's proxy statement. Internet and telephone voting for holders of record will conclude on the Sunday prior to the meeting.

Audited financial statements for the year ended June 30, 2010 and the related Management's Discussion and Analysis of Financial Condition and Results of Operations are included in Form 10-K, such portions of which are also contained in the Annual Report included with this communication.

To attend the annual meeting you must have valid proof of identification and other proof of beneficial ownership of SunLink Health Systems, Inc. shares (such as a brokerage statement reflecting your stock ownership) as of September 17, 2010.

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

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By order of the Board of Directors of

SunLink Health Systems, Inc.

/s/ JAMES J. MULLIGAN

James J. Mulligan

Secretary

October 12, 2010

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SUNLINK HEALTH SYSTEMS, INC.

900 Circle 75 Parkway, Suite 1120

Atlanta, Georgia 30339

PROXY STATEMENT

FOR 2010 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 2010 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, 2010, at the Renaissance Waverly Hotel, 2450 Galleria Parkway, Atlanta, Georgia 30339, and invite you to attend in person.

These proxy materials include:

Our proxy statement for the annual meeting; and

Our 2010 Annual Report to Shareholders, which includes our audited consolidated financial statements. All shareholders will have the ability to access the proxy materials on a website referred to in these proxy materials.

We intend to mail this proxy statement and a proxy card to shareholders starting on or about October 12, 2010.

ABOUT THE MEETING

At our annual meeting, our shareholders will act upon the matters outlined in the accompanying notice of meeting. The scheduled matters to be acted upon at the 2010 annual meeting are the election of four directors and the ratification of Cherry, Bekaert & Holland, L.L.P. as our independent registered public accounting firm. In addition, our management will report on our performance during fiscal year 2010.

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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 in the applicable voting instructions or proxy card. If no directions have been specified during Internet or telephone voting or by marking the appropriate places on physical proxy card, the shares will be voted in accordance with the board's recommendations which are:

FOR the election of Karen B. Brenner, C. Michael Ford, Howard E. Turner and Christopher H.B. Mills as directors of the Company for a term of two years.

FOR ratification of the appointment of Cherry, Bekaert & Holland, L.L.P. as the Company's independent registered public accounting firm for fiscal 2011.

A shareholder signing and returning a 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 September 17, 2010, which is the record date for the annual meeting. On September 17, 2010, we had 8,081,732 common shares outstanding. Each common share is entitled to one (1) 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 directly to us, 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 over the Internet or telephone, as provided to you by the holder of record or by filling out a voting instruction form from your broker that accompanies your proxy materials. Regardless of how you hold your shares, we invite you to attend the annual meeting.

Electronic Availability

In compliance with the Securities and Exchange Commission's proxy rules our Proxy Statement and Annual Report to Shareholders are available at www.proxyvote.com, a website established specifically for access to such materials. Such materials are also available on the Company's website at www.sunlinkhealth.com.

How To Vote

Your Vote Is Important. We encourage you to vote promptly. Internet and telephone voting is available through 11:59 p.m. local time on Sunday, November 7, 2010 for all shares held of record. You may vote in one of the following ways:

By Telephone: If you are a holder of record located in the U.S., you can vote your shares by calling the toll-free telephone number provided on your proxy card or, if you are an owner in street name, by calling the toll-free number provided in the instructions from your broker. 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.

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By Internet: If you are a holder of record you can also vote your shares by using the Internet. Your proxy card indicates the website you need to access Internet voting. You may vote on 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 from your broker. You may incur telephone and Internet access charges if you vote on the Internet. If you vote by Internet, you do not need to return your proxy card.

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. However, 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 shares that are entitled to vote are present at the Meeting, either in person or by proxy.

Votes Required For Proposal: To elect directors a plurality of the votes cast is required. To ratify the appointment of Cherry, Bekaert & Holland, L.L.P. as the Company's independent registered public accounting firm a majority of votes cast is required.

Broker Vote On Election Of Directors, Routine And Non-Routine Proposals: NYSE Rule 452 and Section 402.8 of the NYSE Listed Company Manual prohibit broker discretionary voting on a variety of matters, including, but not limited to, the election of directors for shares held in client accounts when the broker has not timely received voting instructions from the client. Effective September 9, 2010 Rule 452 and Section 402.8 were amended to prohibit broker discretionary voting upon matters related to executive compensation, including, but not limited to, advisory votes on approval of compensation and the frequency of such advisory votes.

If you hold your shares in a bank or brokerage account, you should be aware that if you fail to instruct your bank or broker how to vote within 10 days of the meeting, the bank or broker is not permitted to vote your shares in its discretion on your behalf for the election of directors, but is permitted to vote your shares in its discretion on your behalf on routine items.

NYSE Amex rules determine whether proposals presented at the shareholder meetings are routine or not routine. If your shares of our common stock are held by a broker in street name (which means your shares are registered in the name of your broker or other nominee), under the rules of the New York Stock Exchange (NYSE) your broker may vote your shares on certain routine matters, other than the election of directors, if you do not provide your broker with voting instructions. The ratification of the selection of our independent registered public accountants is considered a routine matter upon which brokerage firms may vote on behalf of their clients if no voting instructions are provided.

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A broker non-vote occurs when a broker holding your shares in street name does not vote on a particular matter because you did not provide the broker voting instructions and the broker lacks discretionary voting authority to vote the shares because the matter is non-routine or fails to exercise such authority.

While banks and brokers have historically cast their votes on routine items in support of management in the absence of instructions from their clients, some firms are now casting uninstructed votes in the same proportion as their clients' instructed votes, giving, in effect, investors who provide voting instructions to brokers an opportunity to disproportionately influence the outcome of proxy voting.

If you want to assure that your shares are voted in accordance with your wishes on Items 1 and 2 you should complete and return your voting instruction form before October 27, 2010.

How We Count Votes: Abstentions will be counted for purposes of determining the presence or absence of a quorum. In the case of Proposal 1 (Election of Directors) and Proposal 2 (Ratification of the Selection of Independent Registered Public Accountants), abstentions will not change the number of votes cast for or against these proposals and therefore will have no effect on the approval of these proposals.

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, executive compensation committee (referred to in this proxy statement as the *compensation committee*) and strategic alternatives 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 facilities and their participation in board and board committee meetings.

The board of directors has adopted charters for the standing board committees, resolutions governing the process for identification and nomination of candidates for the board, and the Company's code of ethics, known as the SunLink Health Systems, Inc. Code of Conduct. These documents, together with the Company's Articles of Incorporation and Code of Regulations, provide the framework for the governance of the Company. Our Code of Conduct is applicable to our directors and our employees, including our principal executive officer and principal financial officer. Members of our board are required to certify compliance with our Code of Conduct. Any amendment to or waiver of our Code of Conduct for any board member, our chief executive officer, our chief financial officer as well as any other executive officer as well as our comptroller and other accounting officer will be disclosed on our website, www.sunlinkhealth.com.

A complete copy of the charters of the board committees, the resolutions governing the process for identification and nomination of candidates for the board and the Code of Conduct for employees, as in effect from time-to-time, may be found on the Company's website at www.sunlinkhealth.com. Copies of these materials are also available to shareholders without charge upon written request to the Secretary of the Company.

The board intends to review the company's corporate governance principles, charters, code and other aspects of governance annually or more often if necessary, to remain current in all aspects of corporate governance. The board also has adopted a policy to self-evaluate its performance and that of each of its committees on an annual basis.

Summary Of The Corporate Governance Principles

Independence

A majority of the board of directors is required to consist of independent, non-management directors who meet the criteria for independence required by NYSE Amex. Under such rules, a director is independent if he or she does not have a material relationship that would interfere with the exercise of independent judgment in carrying out the responsibilities of a director. Our board annually evaluates each board member's independence.

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The board of directors has determined that as of September 17, 2010 six (6) of the Company's eight (8) incumbent directors are independent under these guidelines: Ms. Brenner and Messrs. Baileys, Burlison, Ford, Hall and Turner. Mr. Thornton, as a management director, also participates in the board's activities and provides valuable insights and advice. Each member of our audit and compensation committees is an independent director both under the general definition for board independence as well as any separate independence criteria for service on the applicable committee whether required by the SEC, NYSE Amex or SunLink. Independence requirements for committee service are set forth in the respective committee charters.

The non-management directors meet periodically in executive session without the management director present. The executive sessions of non-management directors are presided over by the director who is the chairperson of the committee responsible for the issue being discussed. General discussions, such as the review of the Company's overall performance, are presided over by the chairperson or a director elected by a majority of the non-management directors.

Business Combinations

In the event SunLink receives any formal written offer to purchase more than 20% of SunLink's outstanding common stock, such proposal is required to be evaluated by the board of directors, who have delegated the evaluation of such offer(s) to the strategic planning committee of the board of directors. Such committee is required to be comprised of a majority of independent directors and currently is comprised solely of outside directors. The committee has established three criteria for any takeover proposal it considers: (1) adequate price both in light of current market conditions and also consistent with its longer view of the intrinsic value of SunLink, (2) certainty of financing, and (3) minimum execution risk. The strategic planning committee may retain such legal and financial advisors as it may deem necessary to advise it and the board in respect of any offer or other proposal.

In the event of any proposed business combination involving SunLink, the compensation committee is authorized to retain an independent financial advisor to evaluate and make recommendations to the compensation committee concerning any severance or retention package proposed for any of SunLink's officers or directors in connection with any proposed business combination. The compensation committee will evaluate any such proposals in light of existing severance benefits and the financial effect of any existing or additional benefits.

Director Share Ownership

SunLink 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), common shares of SunLink. Each outside director (or future outside director, as the case may be) must maintain ownership of such number of common shares until such outside director ceases to serve as a member of the board. Each of our incumbent directors has complied with such ownership requirement since at least July 1, 2008.

Annual Meeting Attendance

The board of directors encourages all its members to attend the annual meeting of shareholders. In November 2009, all director nominees and all continuing directors were personally present at the annual meeting of shareholders, except Mr. Mills who attended by teleconference.

Communications By And With Directors

In connection with the proper discharge of their duties, our independent non-management directors have access to individual members of management or to other employees of the Company on a confidential basis. Likewise, in connection with the discharge of their duties, non-management directors as authorized by the board or a committee thereof also have access to Company records and files, and our directors may contact other directors without informing Company management of the purpose or even the fact of such contact.

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The board of directors has provided a means by which shareholders, employees or other interested persons 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 at SunLink Health Systems, Inc., Office of Corporate Secretary, 900 Circle 75 Parkway, Suite 1120, Atlanta, Georgia 30339. Our corporate secretary will forward communications 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 chairperson 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 chairperson of the audit committee in care of the Company's Secretary at our 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 chairperson of the audit committee in care of the Company's Secretary at our 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 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 chairperson of the audit committee who will assure that the matter is properly investigated.

Related Party Transactions

The Company is subject to a variety of prohibitions on, or approval procedures with respect to, related party transactions.

First, the Company is subject to certain NYSE Amex requirements which require shareholder approval of certain related party transactions.

Second, the Company's Code of Conduct prohibits related party transactions which could give rise to a conflict of interest including, but not limited to, transactions involving the ownership of at least five percent (5%) or employment by concerns that do business with the Company; conducting business, not on behalf of the Company, with the Company's vendors, suppliers and contractors; representing the Company in any transaction where such person representing the company has a substantial personal interest; disclosure or use of confidential or inside information about the Company for personal gain; competition with the Company in any purchase, sale or ownership of property, property rights or interests; performing services for vendors or competitors of the Company; service on any board of directors or trustees that might conflict with the Company's interests and; the acceptance of any faculty or speaker positions and any honoraria received therewith. A related party transaction must be approved by the Company's compliance committee, or, in the case of a member of the board of directors and/or an executive officer, such related party transaction must be approved by the Company's audit committee, with such action reported to the Company's independent directors. To assist in identifying related person transactions, each director and officer is required, annually, to submit a Conflict of Interest Disclosure Statement. We have not adopted formal standards for the approval of related party transactions, but instead the compliance committee reviews these transactions on a case-by-case basis and may approve such transactions that are in, or not inconsistent with, the best interests of the Company and its shareholders.

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The following table sets forth, as of September 17, 2010 (unless otherwise indicated in the footnotes), certain information with respect to our common stock owned beneficially by each director, by each nominee for election as a director, by each named executive officer, by all directors, nominees and named executive officers as a group and by each person known by us to be a beneficial owner of more than 5% of our outstanding common stock. Except as noted in the footnotes, each of the persons listed has sole investment and voting power with respect to the shares of common stock included in the table.

Name ⁽¹⁾	Common Shares Beneficially Owned As of September 17, 2010 Number ⁽²⁾	% of Class ⁽³⁾
Robert M. Thornton, Jr.	431,924 ⁽⁴⁾	5.3
Director, Chairman, President and Chief Executive Officer		
Mark J. Stockslager	98,264	1.2
Chief Financial Officer and Principal Accounting Officer		
Harry R. Alvis	101,300 ⁽⁵⁾	1.3
Chief Operating Officer		
George D. Shaunnessy	81,000 ⁽⁶⁾	1.0
President, SunLink ScriptsRx, LLC (formerly SunLink Homecare Services, LLC)		
Jerome D. Orth	33,892	*
Vice President, Technical and Compliance Services		
Jack M. Spurr, Jr.	20,082 ⁽⁷⁾	*
Vice President, Hospital Financial Operations		
Dr. Steven J. Baileys	635,404 ⁽⁸⁾	7.8
Director		
Karen B. Brenner	231,959 ⁽⁹⁾	2.9
Director		
Gene E. Burlson	89,350 ⁽¹⁰⁾	1.1
Director		
C. Michael Ford	79,607 ⁽¹¹⁾	1.0
Director		
Michael W. Hall	37,707 ⁽¹¹⁾	*
Director		

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Howard E. Turner	265,044 ⁽¹¹⁾	3.3
Director		
Christopher H. B. Mills	1,287,157 ⁽¹²⁾⁽¹³⁾	15.9
Director		
Berggruen Holdings North America Ltd.	704,039 ⁽¹⁴⁾	8.7
Directors, Nominees and Executive Officers as a group (13 persons)	3,392,690 ⁽¹⁵⁾	40.6

* Less than 1%

⁽¹⁾ The address of the named director or officer is c/o SunLink Health Systems, Inc., 900 Circle 75 Parkway, Suite 1120, Atlanta, Georgia 30339.

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- (2) Information with respect to beneficial ownership is based upon information furnished by each owner unless otherwise indicated. None of the shares beneficially owned by the named officers and directors are the subject of any pledge agreement or arrangement or margin account.
- (3) The percent of our outstanding common stock owned is determined by assuming that in each case the person only, or group only, exercises his, her or its rights to purchase all shares of our common stock underlying stock options that are exercisable as of September 17, 2010, or that will become exercisable within 60 days after that date.
- (4) Includes 223,384 shares owned by CareVest Capital, LLC (CareVest). Mr. Thornton owns 100% of the outstanding voting interests of CareVest.
- (5) Includes 1,750 shares that may be acquired under options exercisable within 60 days of September 17, 2010.
- (6) Includes 80,000 shares that may be acquired under options exercisable within 60 days of September 17, 2010.
- (7) Includes 13,832 shares that may be acquired under options exercisable within 60 days of September 17, 2010.
- (8) Includes 29,607 shares that may be acquired under options exercisable within 60 days of September 17, 2010. Also includes 346,249 shares held by Beilihis Investments, LLC (Beilihis), which is a private investment firm. Dr. Baileys is the managing member of Beilihis.
- (9) Includes 29,607 shares that may be acquired under options exercisable within 60 days of September 17, 2010. Also includes 132, 182 shares held by Fortuna Asset Management, LLC (Fortuna), which is an investment advisory firm. Ms. Brenner is the president of Fortuna. Ms. Brenner s ownership information also includes 65,177 shares which are owned by Ms. Brenner and her immediate family and related entities.
- (10) Includes 22,107 shares that may be acquired under options exercisable within 60 days of September 17, 2010.
- (11) Includes 29,607 shares that may be acquired under options exercisable within 60 days of September 17, 2010.
- (12) Includes 4,857 shares that may be acquired under options exercisable within 60 days of September 17, 2010.
- (13) Includes aggregate holdings under a joint filing on a Schedule 13D dated December 18, 2006 by North Atlantic Value, LLP, Christopher H. B. Mills, American Opportunity Trust, John W. Gildea, Gildea Management Company and Axia Value Partners (collectively, *the Group*). The following information is based solely on such filing. The Group as joint filers disclaims the existence of a group under Rule 13d-3. North Atlantic Value, LLP, is a limited liability partnership organized under the laws of England with its principal office and business at Ryder Court, 14 Ryder Street, London SW1Y 6QB England. Trident North Atlantic Fund is an open-ended investment company incorporated in the Cayman Islands with its principal office and business at P.O. Box 309, Ugland House, George Town, Grand Cayman, Cayman Islands. Trident North Atlantic Fund is a publicly held regulated mutual fund. Mr. Mills serves as a director of Trident North Atlantic Fund and North Atlantic Value serves as an investment adviser to Trident North Atlantic Fund. Mr. Mills is a British citizen whose business address is Ryder Court, 14 Ryder Street, London SW1Y 6QB England. Trident Holdings (Trident Holdings) is an

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open-ended investment company incorporated in the Cayman Islands with its principal office and business at P.O. Box 1350GT, 75 Fort Street, George Town, Grand Cayman, Cayman Islands. High Tor Limited (Trident High Tor) is a corporation organized under the laws of the Cayman Islands with its principal office and business at P.O. Box N-4857, Unit No. 2, Cable Beach Court, West Bay Street, Nassau, The Bahamas. American Opportunity Trust is a corporation organized under the laws of England with its principal office and business at Ryder Court, 14 Ryder Street, London SW1Y 6QB England. North Atlantic Smaller Companies Investment Trust (NASCIT) is an investment limited liability company organized under the laws of England with its principal office and business at Ryder Court, 14 Ryder Street, London SW1Y

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6QB England. Gildea Management Company is a corporation organized under the laws of the State of Delaware with its principal office and business address at PO Box 938, 65 Vitti Street, New Canaan, Connecticut. John W. Gildea is a U.S. citizen whose principal business address is PO Box 938, 65 Vitti Street, New Canaan, Connecticut. Axia Value Partners LLC (Axia Value Partners) is a limited liability company organized under the laws of the State of Delaware with its principal office and business address at PO Box 938, 65 Vitti Street, New Canaan, Connecticut. North Atlantic Value is the investment manager and/or investment adviser to each of American Opportunity Trust, Trident North Atlantic Fund, Trident Holdings, Trident High Tor and its private clients and as such it has the authority to vote or dispose of the common stock. Mr. Mills is the Chief Executive Officer of American Opportunity Trust. Mr. Mills is also a partner of North Atlantic Value.

Gildea Management Company is the investment manager to Axia Value Partners and as such it has the authority to vote or dispose of the Company's common shares owned by Axia Value Partners. John W. Gildea is a managing director of Gildea Management Company and is also a director of American Opportunity Trust. The aggregate number and percentage of the outstanding common shares of the Company reported by the Group to be beneficially owned by each Group and to the knowledge of the Group, by each other person who may be deemed to be a member of the Group is as follows:

Group Member	Aggregate Number of Shares	Number of Shares: Sole Power to Vote	Number of Shares: Shared Power to Vote	Number of Shares: Sole Power to Dispose	Number of Shares: Shared Power to Dispose	Approximate Percentage
North Atlantic Value	1,282,300		1,282,300		1,282,300	15.9%
Christopher H. B. Mills	1,282,300		1,282,300		1,282,300	15.9%
American Opportunity Trust	302,844		302,844		302,844	3.7%
Trident North Atlantic Fund	239,302		239,302		239,302	3.0%
Trident Holdings	123,670		123,670		123,670	1.5%
Trident High Tor	29,084		105,000		105,000	0.4%
John W. Gildea	107,800	2,800	105,000	2,800	105,000	1.3%
Gildea Management Company	105,000		105,000		105,000	1.3%
Axia Value Partners	105,000		105,000		105,000	1.3%

(14) Represents aggregate holdings under a joint filing on Schedule 13D dated March 24, 2008 by Berggruen Holdings North America Ltd., Medici I Investments Corp., Berggruen Holdings Ltd., Tarragona Trust, Nicholas Berggruen, Resurgence Health Group, LLC, Philip H. Eastman and Anne S. Thompson. The following information is based solely on such filing. Berggruen Holdings North America Ltd., is a British Virgin Islands (BVI) international business company, with its principal office at 1114 Avenue of the Americas, 41st Floor, New York, New York, and is a direct, wholly owned subsidiary of Medici I Investments Corp., a BVI company, with its principal office at 1114 Avenue of the Americas, 41st Floor, New York, New York, which is a direct, wholly owned subsidiary of Berggruen Holdings Ltd., a BVI international business company (Berggruen Holdings) with its principal office at 1114 Avenue of the Americas, 41st Floor, New York, New York. All of the shares of Berggruen Holdings are owned by Tarragona Trust, a BVI trust (Tarragona) with its principal office at 9 Columbus Centre, Pelican Drive, Road Town, Tortola, British Virgin Islands. The trustee of Tarragona is Maitland Trustees Limited, a BVI corporation acting as an institutional trustee in the ordinary course of business. Mr. Berggruen is a U.S. citizen whose principal business address is 1114 Avenue of the Americas, 41st Floor, New York, New York. Mr. Berggruen is a director of Berggruen Holdings. Resurgence Health Group, LLC, a Georgia limited liability company (Resurgence) with its principal office at 1400 Buford Highway, Building R-3, Sugar Hill, Georgia. Mr. Eastman is a U.S. citizen whose principal business address is 1400 Buford Highway, Building R-3, Sugar Hill, Georgia. Mr. Eastman is the chief executive officer of Resurgence. Ms. Thompson is a U.S. citizen whose principal business address is 1400 Buford Highway, Building R-3, Sugar Hill, Georgia. Ms. Thompson is the chief operating officer of Resurgence.

(15) Includes 270,581 shares that may be acquired under options exercisable within 60 days of September 17, 2010.

Table of Contents**ITEM 1 TO BE VOTED ON BY SHAREHOLDERS****Item 1 Election Of Directors**

The Company's board of directors is presently comprised of eight (8) members. One class of directors is normally elected at each annual meeting of shareholders for a term of two (2) years. At the 2010 annual meeting, shareholders will elect four (4) directors who will hold office until the annual meeting of shareholders in 2012. The board of directors has nominated Karen B. Brenner, C. Michael Ford, Howard E. Turner, and Christopher H.B. Mills for re-election as directors for terms of office of two (2) years.

It is the intention of the proxy agents named in the proxy, unless otherwise directed, to vote such proxies for the election of Karen B. Brenner, C. Michael Ford, Howard E. Turner, and Christopher H.B. Mills. 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 board of directors unanimously recommends a vote FOR the election of Karen B. Brenner, C. Michael Ford, Howard E. Turner, and Christopher H.B. Mills.

INFORMATION CONCERNING THE BOARD OF DIRECTORS**Identification 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.

Current Nominees:	Name and Offices	
	Presently Held with Company	Director Since
Karen B. Brenner	Director	1996
C. Michael Ford	Director	1999
Howard E. Turner	Director	1999
Christopher H. B. Mills	Director	2007

Directors Whose Term of Office Expires in 2011:	Name and Offices	
	Presently Held with Company	Director Since
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. Bursleson	Director	2003

Certain information concerning each person listed in the above table, including his or her principal occupation for at least the last five (5) years, is set forth below.

Karen B. Brenner, 58, 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. From 1996 to 1998 Ms. Brenner served on the Board of Directors of Data Design Labs. From 1984 to 1993, Ms. Brenner was a partner in Allen Brenner, a financial consulting firm. Prior to 1984, Ms. Brenner was a consultant in the health and medical division of Booz Allen Hamilton.

C. Michael Ford, 71, 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 been Chief Executive Officer of Newtown Macon, Inc. since November 2003 and was its Chief Financial Officer from

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October 2002 to November 2003. Mr. Ford was Chairman of the Board of In Home Health, Inc. from February 2000 to December 2000. Mr. Ford also 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, 68, 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 was 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.

Christopher H. B. Mills, 58, is a Director and the Chief Investment Officer of J.O. Hambro Capital Management and has served in such capacity since January 1993. Mr. Mills also serves as the Managing Director/Investment Manager of North Atlantic Smaller Companies Investment Trust plc and Trident North Atlantic, positions he has held since 1998. From 1984 to 1993 Mr. Mills was a Director of MIM Management Limited.

Robert M. Thornton, Jr., 61, has been Chairman and Chief Executive Officer of the Company since September 10, 1998, President since July 16, 1996 and was its 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 has been Chairman and Chief Executive Officer of CareVest Capital, LLC, a private investment and management services firm. Mr. Thornton was a director of and held various executive offices with Hallmark Healthcare Corporation from October 1989 until Hallmark's merger with Community Health Systems, Inc. in October 1994.

Dr. Steven J. Baileys, 56, is a private investor and was Chairman of the Board of Directors of SafeGuard Health Enterprises, Inc., a public dental care benefits company, from July 1995 to June 2004. Dr. Baileys was Chief Executive Officer of SafeGuard from April 1995 to February 2000, its President from December 1981 until May 1997, and its Chief Operating Officer from December 1981 until April 1995. Dr. Baileys is licensed to practice dentistry in the State of California.

Michael W. Hall, 61, 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 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 current hospitals.

Gene E. Burleson, 68, is a private investor and was Chairman of PET DRx Corporation from June 2005 to July 1, 2010 and Chief Executive Officer from October 2008 until its acquisition by VCA Antech in July 2010. Mr. Burleson was a former director of HealthMont Inc., from September 2000 until its acquisition by SunLink in October 2003. Mr. Burleson served as Chairman of Mariner Post-Acute Network, Inc., from January 2000 to June 2002. Mr. Burleson was Chairman of the Board of GranCare Inc. from October 1990 to November 1997 and President and Chief Executive Officer of GranCare Inc. from December 1989 to February 1997. From June 1986 to March 1989 Mr. Burleson served as President, Chief Operating Officer and Director of American Medical International Inc. (AMI). Mr. Burleson served as Managing Director of AMI's international operations from May 1981 to June 1986.

Nominees For Election As Directors For A Two-Year Term Expiring In 2012

Director Qualifications

The board of directors concluded that each continuing director and each director nominated for re-election was qualified to serve as a director of SunLink and recommended the nominees for election or re-election at the

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current year's annual meeting. No single factor was more important than any other factor in the evaluation of any director or selection of any director nominee and the board made its determination on the basis of its own experience and subjective evaluation of each individual, with reference to various objective criteria required by law or other regulatory requirements, including but not limited to independence requirements, and stock exchange regulations as well as the subjective criteria that the board has deemed desirable in evaluating nominations.

Each director nominated for re-election and each continuing director was deemed by the board to have: met applicable legal and regulatory definitions of independence excluding from such independence determination only Mr. Thornton, the company's sole management director; met the criteria set forth in the company's corporate governance guidelines; a reputation for and to have displayed, personal integrity and judgment; achieved professional prominence in their business careers; manifested concern for the interests of the company's shareholders; sufficient time available for service on the SunLink board taking into account such person's other professional and personal commitments; demonstrated a commitment to the company based on their current and historical service to the company as a director and/or as an executive officer of the company; a general understanding of marketing, finance, and other disciplines relevant to the success of a publicly traded company in today's business environment; and knowledge with respect to the current state of the company based on their current and historical service to the company as a director and/or as an executive officer of the company.

Board members with long board service to the company (Thornton, Brenner, Ford, Turner, Baileys, Hall and Burleson), prior experience in the healthcare services industry (Hall, Burleson, Ford and Thornton), current and prior experience providing legal services to clients in the healthcare industry (Turner), prior experience in businesses ancillary to the healthcare services industry (Hall, Burleson, Ford and Thornton), or a combination thereof, as set forth in greater detail in their individual biographies, were deemed to have applicable industry or related industry experience relevant to the company. Board members identified in greater detail in their individual biographies as having served as officers of other healthcare services providers (Hall, Burleson, Ford and Thornton) or a current or prior officer of the company (Thornton) were deemed to have had operational experience relevant to the company. Directors identified elsewhere in this proxy statement in greater detail as serving on specific committees of the board were deemed to have experience in matters relevant to their current committee assignments including executive compensation (Brenner, Baileys and Burleson), and financial expertise (Brenner, Ford and Hall). Each director identified in greater detail in their biographies as an incumbent director of SunLink (All) or as having served as an officer, director or both of one or more other public companies (Baileys) was deemed to have experience relevant to SunLink as a public company and to the discharge of the duties of such persons as directors of a public company. Each director with prior CEO experience (Baileys, Hall, Burleson and Ford) and corporate legal experience (Turner) was deemed to have experience relevant to their oversight of the company's management in general and its CEO in particular. Each director identified (Thornton, Baileys, Hall, Burleson and Ford) in their biography as having applicable healthcare services industry experience, or healthcare legal experience (Turner) was deemed to have applicable industry regulatory experience. Each director identified as having experience in industries which are or have been highly competitive (All) or highly regulated, especially the financial services industries (Brenner and Mills), were deemed to have experience relevant to the company in its own business which is both highly competitive as well as highly regulated. Each director was deemed of sufficient age and maturity to have accumulated the life experiences, viewpoints, and expertise necessary to perform the duties of a public company director, as well as being able to vigorously perform his or her duties as a director of the company.

The committee conceptualizes diversity expansively to include differences of viewpoint, professional experience, and skill sets, especially in matters of healthcare service operations and regulations, financing, marketing, and human resources, as well as a subjective determination of individual qualities, attributes, and differences. The committee has taken into account the benefits of, but has not ascribed any specific weight to, or adopted any formal policy with respect to, matters of geographic and cultural background, race, and gender. The board evaluates each individual in the context of the board as a whole, with the objective of recommending a group that can best perpetuate the success of SunLink's business and represent shareholder interests through the

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exercise of sound judgment using its diversity of experience. The committee evaluates each incumbent director to determine whether he or she should be nominated to stand for re-election, based on the types of criteria outlined above as well as the director's contributions to the board during their current term. Because the assessment of the diversity of the board as well as the effectiveness of the current factors in achieving diversity from a variety of perspectives is based on the individual subjective evaluation of each of the board members, the company does not engage in any formal benchmarking procedure.

Board Meetings

The board of directors held nine (9) meetings during fiscal 2010. The board has four (4) standing committees: an executive committee, an audit committee, a compensation committee and a strategic planning committee. Each standing committee has the right to retain its own legal and other advisors. Except for Mr. Hall and Mr. Mills, all directors attended 75% or more of the meetings of the board of directors. All directors attended 75% or more of the meeting of the board committees on which they served in our fiscal year ended June 30, 2010.

Committees Of The Board Of Directors Overview**Membership On Board Committees**

This table lists the four (4) board committees in existence during our last fiscal year and the directors who currently serve on them and the number of committee meetings held in the fiscal year ended June 30, 2010.

Name	Audit	Compensation	Executive	Strategic
Dr. Baileys				C
Ms. Brenner				
Mr. Burleson		C		
Mr. Ford	C			
Mr. Hall				
Mr. Thornton			C	
Mr. Turner				
Mr. Mills				
2010 Meetings	6	3	2	0

C = Chairperson

= Member

Audit Committee

The audit committee's primary function is to assist the board of directors in fulfilling its oversight responsibilities by:

selecting the Company's independent registered public accounting firm and evaluating the independence, performance and continued retention of such accounting firm;

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

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

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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) including:

reviewing and discussing with management and the independent registered public accounting firm the financial statements to be included in our annual report on Form 10-K for filing with the SEC;

discussing with the independent registered public accounting firm the conduct of the audit, the adequacy and effectiveness of our accounting and financial controls and the written disclosures required by Independence Standards Board Standard No. 1 regarding their independence;

meeting separately with the independent registered public accounting firm and with our internal auditors, as well as our management, to discuss the results of their audits; and

reviewing and discussing with management and the independent registered public accounting firm our interim financial statements as included in our quarterly reports;

reviewing the potential engagement of our independent registered public accounting firm for non-audit services prior to any such engagement and approving any such engagement;

reassessing annually the adequacy of the audit committee charter and recommending any proposed changes to the board for approval;

reporting to our board of directors the conclusions with respect to the matters that the audit committee has considered; and

examining such other areas or activities consistent with the audit committee charter, the Company's Code of Regulations and governing law as the audit committee or board deem appropriate.

Our audit committee has adopted a procedure to receive allegations on any fraudulent accounting issues through a toll-free telephone number and email as set out in our code of conduct and ethics.

All three (3) members of the audit committee are independent as defined in Section 803(A) of the NYSE Amex Company Guide 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 pursuant to Section 407 of the Sarbanes-Oxley Act of 2002. Our audit committee charter is available on our website at www.sunlinkhealth.com.

Compensation Committee

Composition; Independence; Compensation Committee Interlocks And Insider Participation

Our compensation committee is composed entirely of independent members of the board of directors. All three (3) members of the compensation committee are independent, as defined in Section 803(A) of the NYSE Amex Company Guide and each of them qualifies as an outside director (as such term is defined in Section 162(m) of the Internal Revenue Code and the regulations thereunder). Our compensation committee charter is available on our website at www.sunlinkhealth.com. No member of the committee is a current or former employee or officer of the Company or any of its affiliates.

Compensation Review Process; And Management Participation In Compensation Determinations

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The compensation of our executive officers is determined by the compensation committee on an annual basis with the exception of the compensation of our chief executive officer and the chief operating officer of the Company and our president of SunLink ScriptsRx, LLC, each of whose compensation generally is fixed pursuant to the terms of multi-year employment agreements approved by the committee. Our compensation committee considers all elements of compensation in making its determinations. With respect to those executive officers who do not serve on our board of directors, our compensation committee also considers the recommendations of

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our chairman of the board and chief executive officer. The committee meets at various times during the year, and it also considers and takes action by written consent. The committee chairperson reports on committee actions and recommendations at board meetings.

Responsibilities

The compensation committee has the power and authority of the board to perform and performs the following duties and responsibilities:

Develops guidelines and, on an annual basis, reviews the compensation and performance of the Company's senior executive officers; reviews and approves corporate goals relevant to the compensation of the chief executive officer; evaluates the chief executive officer's performance in light of these goals and objectives; sets the chief executive officer's compensation based on such evaluation; evaluates the performance of the Company's senior executive officers and approves their annual compensation; and produces an annual report on executive compensation for inclusion in the Company's annual proxy statement, in accordance with all applicable rules and regulations;

Makes recommendations to the board with respect to incentive compensation plans and equity-based plans, and administers such plans by establishing criteria for granting of awards to the Company's officers and other employees and reviews and approves the granting of awards in accordance with such criteria;

Reviews and approves plans for managerial succession of the Company;

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

Annually reviews and assesses the adequacy of the Compensation Committee Charter and recommends any proposed changes to the board for approval; and

Performs such other activities consistent with the Compensation Committee Charter, the Company's Code of Regulations and governing law as the committee or the board deems appropriate.

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.

Strategic Planning Committee

The strategic planning committee is empowered to, among other things, conduct periodic evaluations of the Company's strategic alternatives. The committee has the power and authority of the board to perform and performs the following duties and responsibilities:

Recommends for board approval actions that address the Company's strategic alternatives, including, but not limited to solicited and unsolicited takeover offers, possible acquisition targets, asset sales or major purchases;

Discusses with Company's regular outside counsel or special counsel any legal matters that could reasonably be expected to have a material impact on the Company's long-term strategies;

Annually evaluates performance of the committee; and

Annually reviews and assesses the committee charter and submits recommended changes to the board. The strategic planning committee charter is available on our website at www.sunlinkhealth.com.

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Nomination Procedures And Shareholder Nominations

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, by majority vote of the entire board of directors then in office, directors to serve on the Company's board so long as, pursuant to NYSE Amex 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 in *Requirements, Including Deadlines, For Submission Of Proxy Proposals, Nomination Of Directors And Other Business Of Shareholders* on page 47 of this proxy statement 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.

Table of Contents**COMPENSATION OF DIRECTORS FOR FISCAL YEAR 2010****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.

Non-Management Directors

The Company believes that the compensation of non-management directors should be at a level which is sufficient to attract talented and diverse individuals to serve on the Company's board of directors while, at the same time, avoiding compensation levels where the level of compensation might present the appearance of a potential lack of director independence. However, in recent years, the board of directors has limited director compensation in light of the Company's recent financial performance to levels below those which the board would otherwise deem appropriate.

The following chart discloses the compensation of each non-management director for the fiscal year ended June 30, 2010:

Name	Fees Earned or Paid in Cash (\$) ⁽¹⁾	Stock Awards (\$)	Option Awards (\$) ⁽²⁾	Non-Equity Incentive Plan Compensation (\$)	Change in Pension Value and Nonqualified Deferred Compensation Earnings	All Other Compensation (\$)	Totals (\$)
Dr. Steven J. Baileys	25,000	N/A	0	N/A	N/A	N/A	25,000
Michael W. Hall	25,000	N/A	0	N/A	N/A	N/A	25,000
Gene E. Burleson	25,000	N/A	0	N/A	N/A	N/A	25,000
Karen B. Brenner	25,000	N/A	0	N/A	N/A	N/A	25,000
C. Michael Ford	25,000	N/A	0	N/A	N/A	N/A	25,000
Howard E. Turner ⁽³⁾	25,000	N/A	0	N/A	N/A	N/A	25,000
Christopher H. B. Mills	25,000	N/A	0	N/A	N/A	N/A	25,000

(1) **Cash Compensation.** In December 2008, in light of the Company's performance, we moved to the payment of a flat fee for director compensation of \$25,000 per year, payable on a monthly basis. Prior to December 2008, each non-employee director received a quarterly fee of \$4,500 for service as a director. In addition, he or she received \$1,500 for attendance in person and \$1,000 for attendance by phone at a meeting of the board of directors or of a committee. Members of the audit committee received \$3,000 per quarter and the chairperson of the audit committee received \$6,000 per quarter. Further, the chairperson of the compensation committee received an additional \$3,000 per quarter. We continue to reimburse customary expenses for attending board, committee and shareholder meetings.

(2) **Equity Compensation.** Each non-employee director is eligible to participate in the Company's 2001 Outside Directors' Stock Ownership and Stock Option Plan and in the 2005 Equity Incentive Plan. However, we have not made any equity-based compensation awards to directors since September 2008. Upon the grant of director options in September 2008, the Company exhausted the number of shares available for issuance to non-employee directors under its 2005 Equity Incentive Plan absent forfeitures. Likewise, no new shares have been available for issuance under the 2001 Outside Directors' Stock Ownership and Stock Option Plan since 2005.

(3) **Other Arrangements.** Mr. Turner is a partner of the law firm of Smith, Gambrel & Russell, LLP. Such law firm provided legal services to the Company in the fiscal year ended June 30, 2010 at customary rates and continues to provide such services to the Company in the fiscal year ending June 30, 2011.

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The following chart discloses certain information with respect to stock awards and option awards held by each non-management director as of the fiscal year ended June 30, 2010:

Name	Option Awards			Stock Awards			Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested (\$)	
	Number of Securities Underlying Unexercised Options (#) ⁽¹⁾	Number of Securities Underlying Unexercised Options (#) ⁽¹⁾	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Options (#)	Option Exercise Price (\$)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#) ⁽²⁾		Market Value of Shares or Units of Stock That Have Not Vested (\$)
Dr. Steven J. Baileys	7,500			1.50	03/04/2011	N/A	N/A	N/A
	6,250			2.90	12/09/2013			
	5,500			9.63	11/10/2015			
	5,500			6.55	05/15/2017			
	4,857			8.00	09/23/2017			
Michael W. Hall	7,500			2.91	08/22/2011	N/A	N/A	N/A
	6,250			2.90	12/09/2013			
	5,500			9.63	11/10/2015			
	5,500			6.55	05/15/2017			
	4,857			8.00	09/23/2017			
Gene E. Burleson	6,250			2.90	12/09/2013	N/A	N/A	N/A
	5,500			9.63	11/10/2015			
	5,500			6.55	05/15/2017			
	4,857			8.00	09/23/2017			
Karen B. Brenner	7,500			1.50	03/04/2011	N/A	N/A	N/A
	6,250			2.90	12/09/2013			
	5,500			9.63	11/10/2015			
	5,500			6.55	05/15/2017			
	4,857			8.00	09/23/2017			
C. Michael Ford	7,500			1.50	03/04/2011	N/A	N/A	N/A
	6,250			2.90	12/09/2013			
	5,500			9.63	11/10/2015			
	5,500			6.55	05/15/2017			
	4,857			8.00	09/23/2017			
Howard E. Turner	7,500			1.50	03/04/2011	N/A	N/A	N/A
	6,250			2.90	12/09/2013			
	5,500			9.63	11/10/2015			
	5,500			6.55	05/15/2017			
	4,857			8.00	09/23/2017			

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Christopher H. B. Mills	4,857	8.00	09/23/2017	N/A	N/A	N/A	N/A
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- (1) Includes grants of options under the Company's 2001 Outside Directors' Stock Ownership and Stock Option Plan and the 2005 Equity Incentive Plan.
- (2) If we grant stock awards in the future we will report the named director holding unvested securities, the vesting date for such securities and the number of securities vesting on the applicable date.

Table of Contents**EXECUTIVE OFFICERS**

Our executive officers, as of September 17, 2010, their positions with the Company or our subsidiaries and the ages of such executive officers are as follows:

Name	Office	Age
Robert M. Thornton, Jr.	Director, Chairman of the Board of Directors, President and Chief Executive Officer	61
Mark J. Stockslager	Chief Financial Officer and Principal Accounting Officer	51
Harry R. Alvis	Chief Operating Officer	65
Jerome D. Orth	Vice President, Technical and Compliance Services	62
Jack M. Spurr, Jr.	Vice President, Hospital Financial Operations	65
George D. Shaunnessy	President, SunLink ScriptsRx, LLC	62

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:

Current Executive Officers

Mark J. Stockslager has been SunLink's Chief Financial Officer since July 1, 2007. He was interim Chief Financial Officer from November 6, 2006 until June 30, 2007. He has been the Principal Accounting Officer since March 11, 1998 and was Corporate Controller from November 6, 1996 to June 4, 2007. 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.

Harry R. Alvis has been Chief Operating Officer of SunLink since September 1, 2002, and Senior Vice President of Operations of SunLink Healthcare LLC since February 1, 2001. 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 was the Chief Executive Officer of Pinelake Medical Center in Mayfield, Kentucky from November 1987 through August 1995. Pinelake was a healthcare facility owned by HealthTrust, Inc.

Jerome D. Orth was Vice President, Technical & Compliance Services of SunLink from February 1, 2001 until he separated from his employment with the Company on October 1, 2010. See the Company's Current Report on form 8-K filed October 7, 2010. 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.

Jack M. Spurr, Jr. has been the Vice President, Hospital Financial Operations of SunLink since October 1, 2002. From February 1, 2001 until September 30, 2002, Mr. Spurr performed several interim financial roles for the Company. From 1978 to 2000, Mr. Spurr held financial positions with Hospital Corporation of America, Columbia Healthcare, Inc., Quorum Health Group, Inc., HealthTrust, Inc. and National Healthcare Inc.

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George D. Shaunnessy was President of SunLink ScriptsRx, LLC (formerly SunLink Homecare Services, LLC) from April 22, 2008 until October 1, 2010. Pursuant to the terms of his employment agreement, Mr. Shaunnessy will separate from his employment with the Company effective October 30, 2010. See the Company's Current Report on form 8-K filed October 7, 2010. Mr. Shaunnessy was President and Chief Executive Officer of MedImaging, Inc, from 2003 to December 2007, Managing Partner and Chief Executive Officer of Affiliated Management Services, Inc., from 1997 to April 2008, and President, Chief Executive Officer and a director of Housecall Medical Resources, Inc. from 1993 to 1997. From 1978 to 1991, Mr. Shaunnessy held executive positions with National Healthcare Inc., Foster Medical Home Health Care, a division of Avon Products, Charter Medical Corporation and Hospital Affiliates International, Inc.

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EXECUTIVE COMPENSATION

Compensation Process

Compensation Review Process; Management Participation in Compensation Determinations; Delegation of Authority

The compensation of our executive officers is determined by the compensation committee of our board of directors on an annual basis subject to the provisions of employment agreements. The committee considers all elements of compensation in making its determinations. With respect to those executive officers who do not serve on our board of directors, the committee also considers the recommendations of our chairman of the board and chief executive officer. The committee meets at various times during the year, and it also considers and takes action by written consent. The committee chair reports on committee actions and recommendations at board meetings.

Periodically, the committee conducts a comprehensive review of the company's executive compensation program (the Compensation Review). The Compensation Review may include (a) an internal report evaluating executive compensation throughout the company to review consistency and program effectiveness and (b) a report evaluating the competitiveness of executive compensation at the company relative to other healthcare companies and public corporations employing similar executive talent, which report may be internally generated or produced by outside consultants. As part of the evaluation process, the committee considers the recommendations of management; particularly the recommendation of the company's chief executive officer, in setting the compensation of the company's named executive officers.

The committee may delegate limited authority to the compensation and benefits group in SunLink's human resources (HR) department to support the committee in its work and, in some cases, act pursuant to delegated authority to fulfill various functions in administering SunLink's compensation programs.

Authority To Utilize Compensation Consultants

The compensation committee has the authority to and has in the past engaged outside advisers, experts and others to assist it in various ways including providing it with comparative data. The compensation committee has established procedures that it considers adequate to ensure that advice to the committee remains objective and is not influenced by the company's management, including a direct reporting relationship of any compensation consultant to the committee. If the committee elects to engage any consultant, it is contemplated that under the terms of the committee's agreement with any such consultant the committee will be able to contact the consultant without any interaction from company management and the committee will require both the consultant and the company to report any engagement of the consultant by the company and the amount of fees paid or anticipated to be paid in connection with such engagement in order that the committee may evaluate the independence of such consultant in its role as the committee's compensation consultant.

Compensation Disclosure And Analysis

Compensation Philosophy

Our company's goal is to be a leading provider of healthcare services in the rural and exurban markets. To achieve our goal we seek to deliver financial and operational performance consistent with that of other top healthcare companies. The committee believes that having executives who are strong leaders has enabled SunLink and will continue to enable SunLink to attract and retain highly engaged talented employees, promote continued growth and demonstrate the company's values - patient and customer commitment, quality, integrity, teamwork, respect for people, good citizenship, a will to win and personal accountability.

The compensation program for the Company's executive officers is designed to attract, motivate, reward and retain executives of ability and experience who are critical to the achievement of our goal. The program

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includes incentive compensation tied to our annual and longer-term financial, operational and strategic objectives, which are intended to align the financial interests of our executive officers with those of our shareholders. This compensation philosophy is characterized by the following principal elements:

1. **Measurable goals** that promote the interest of our three constituencies:

Shareholders: aligning our compensation programs with internal financial objectives for revenue and cost control and growing our business both internally and through acquisitions;

Patients, Physicians and Communities: increasing patient and physician satisfaction, improving patient and physician service, and expanding our service offerings in the communities we serve; and

Employees: identifying, recruiting, developing and retaining a highly engaged, diverse workforce of exceptional talent that achieves our corporate and healthcare delivery goals, and superior patient service in an atmosphere of high job satisfaction and performance.

2. **Competitive pay practices** that include appropriate performance incentives and total direct compensation, which are periodically reassessed by a review of the compensation practices and pay levels of a sample of other healthcare companies, especially other companies providing services in rural and exurban markets.

3. **An emphasis on long-term incentive compensation**, reflecting our commitment to meet or exceed our objectives, including enhancing shareholder value, over the moderate and long term, and to retain a highly talented and experienced senior executive team to lead the company successfully in a rapidly changing industry and economic environment.

Objectives and Goals

We have five major objectives for the company's compensation structure:

1. *Accountability Through Measurable Goals*, including:

Growth and Expense Control Measures, which align our compensation programs with internal financial objectives for revenue, growth, and cost control and growing our business both internally and through acquisitions;

Patient, Physician, and Community Satisfaction Measures, which align our compensation programs with performance on objective medical benchmarks, and operational goals including length of stay, patient and physician satisfaction measures, as well as the company's broader goals of continually improving employee relations, customer service, increasing customer satisfaction, expanding service offerings in communities served by the company;

Employee Recruitment and Retention Measures with a goal of identifying, recruiting, developing and retaining a highly engaged, diverse workforce of exceptional talent that achieves our corporate and healthcare delivery goals, and superior patient service in an atmosphere of high job satisfaction and performance.

2. *Congruence between Executive Pay and Business Performance*, through compensation programs designed to reward high performance with high compensation over short, medium, and long term time horizons.

3. *External Competitiveness*, through compensation programs that are intended to motivate management with compensation that takes into account relative compensation within the healthcare industry and compensation relative to other companies of similar size and complexity, as well as to promote management continuity and succession planning.

4. *At Risk Compensation*, through compensation programs that are intended to encourage long-term thinking and provide continued at risk compensation, including equity-linked and multi-year compensation programs, as well as a stock ownership requirement for our NEOs.

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5. *Risk Appropriateness*, through compensation programs that encourage boldness and innovation but do not encourage undue or excessive risk or sacrifice long term growth or goals for transient success. To achieve this goal we seek to use compensation programs that balance short and long term incentives and which do not utilize open-ended incentives. We also do not utilize certain performance measures, which we believe could encourage undue risk taking. We consider adjusting targets when economic conditions, warrant as well as changes in the company's business strategy designed to achieve long term success even if such changes are at the expense of short term profitability. We endeavor not to pay excessive compensation when macroeconomic conditions are playing a significant role in the company's success and conversely we endeavor not to overly penalize the company's officers when macroeconomic conditions have adversely affected the company's success; however, we do evaluate how the company's officers guide the company in responding to macroeconomic challenges.

Use Of Compensation Consultants

During fiscal 2010 the committee did not retain any compensation consultants or engage in any formal benchmarking. In fiscal 2005, the compensation committee retained a compensation consulting firm to review and evaluate the current compensation packages for the three highest paid executives of the Company as compared to those of the executives of other healthcare companies with comparable revenues. The committee considered the results of such survey as one source of information in formulating 2010 compensation packages. However, due to the age of such survey, the committee did not give it material weight in determining the reasonableness of potential compensation levels. The committee did not materially adjust compensation in 2009 or 2010. The compensation committee expects to retain a compensation consulting firm to review and evaluate the compensation arrangements for the Company's executive officers for periods after July 1, 2010.

Major Compensation Components

In fiscal 2010 the principal components of compensation for our executive officers were base salary and short-term incentives, generally in the form of cash bonus programs. We believe that the Company's goals are best met by utilizing an approach to compensation with these two (2) distinct elements, as well as historically long term equity based incentives.

Base Salaries. The Company's base salaries are intended to be consistent with its understanding of competitive practices, levels of executive responsibility, qualifications necessary for the particular executive position and the expertise and experience of the executive officer. Salary adjustments reflect the compensation committee's belief as to competitive trends, the performance of the individual and, to some extent, the overall financial condition of the Company.

Base salary amounts in fiscal 2010 were generally unchanged or reflected only minor increases or voluntary reductions in the case of Mr. Thornton.

Base salaries for the company's named executive officers at June 30, 2010 effective from July 1, 2009, were as follows:

Name	Base Salary
Robert M. Thornton, Jr.	\$ 330,000
Mark J. Stockslager	\$ 173,250
Harry R. Alvis	\$ 250,100
Jerome D. Orth	\$ 172,000
Jack M. Spurr, Jr.	\$ 171,258
George D. Shaunnessy	\$ 285,000

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In setting base salaries for fiscal 2010, the committee considered a number of factors including, but not limited to: the fact that no material adjustments were made to base compensation during fiscal 2009; the company's performance in fiscal 2009; the steps taken by the company's executive officers in fiscal 2008 and 2009 to respond to the various events which had negatively impacted the company's business. The size of specific salary adjustments in fiscal 2010 also reflected the committee's beliefs as to competitive trends, the performance of the individual, internal equity, the appropriateness of the rate at which adjustments should be made, and, to some extent, the overall financial condition of the company. Individual variances also were based on the committee's subjective evaluation of other factors including length of service in position, the extent of any difference between an officer's base salary and the base salaries of other officers, the nature of an individual officer's duties, and other factors which may have been deemed relevant by the individual members of the compensation committee.

During the fiscal year ended June 30, 2010, the CEO, Mr. Thornton, was employed under an employment agreement which provided for an annual base salary of not less than \$335,000 which by mutual agreement was reduced at December 1, 2008 to \$330,000. The compensation committee, believes, based in part on consultation with a compensation consulting firm at the end of fiscal year 2005, Mr. Thornton's salary is on the low end of salaries for CEOs of regional hospital management companies and also below that of CEOs for healthcare companies with similar revenues.

Short-Term Incentives. The short-term incentive for an executive is the opportunity to earn an annual cash bonus. For the fiscal year ended June 30, 2010, the executive bonus plan provided that 100% of each bonus would be based on un-weighted discretionary criteria adopted by the committee. For fiscal 2010 the discretionary criteria revolved around the fundamental objective of increasing shareholder value by all appropriate means, in addition to achieving suitable financial results, including but not limited to subjective criteria such as:

- (a) Evaluation and execution of acquisition opportunities;
- (b) Management development;
- (c) Formulation of a succession plan for the Company's executive officers;
- (d) Improvement in the Company's common stock price; and
- (e) Implementation of financial controls over the recently-acquired specialty pharmacy segment.

Management did not achieve the discretionary criteria above to the extent expected by the committee and the compensation committee did not award bonuses under the 2010 executive bonus plan to any of the named executive officers for the 2010 fiscal year.

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The following table sets forth, for each named executive officer, information regarding each incentive award for the year ended June 30, 2010:

Short-Term Incentive Plan Participant	Award Percentage Subject to Objective/ Subjective Criteria (%)⁽¹⁾	Target Incentive Award as a Percentage of Base Salary (%)	Actual Annual Incentive Award (\$)	Actual Annual Incentive Award as a Percentage of Target (%)	Actual Incentive Award as a Percentage of 2010 Base Salary (%)
(Name and Position)					
Robert M. Thornton, Jr., Director, Chairman of the Board of Directors, President and Chief Executive Officer	0/100	N/A	0	0	0
Mark J. Stockslager, Chief Financial Officer and Principal Accounting Officer	0/100	N/A	0	0	0
Harry R. Alvis, Chief Operating Officer	0/100	N/A			