

SUNLINK HEALTH SYSTEMS INC  
Form PRE 14A  
September 23, 2016  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**SCHEDULE 14A**

**Proxy Statement Pursuant to Section 14(a) of the**  
**Securities Exchange Act of 1934**

**(Amendment No.     )**

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

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

**SUNLINK HEALTH SYSTEMS, INC.**

**(Name of the 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):



(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 3, 2016

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 7, 2016, at the Hyatt House Hotel, 3595 Cumberland Blvd. SE, 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 2016 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 19, 2016 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, if you wish, withdraw your proxy and vote in person.

We want to take this opportunity to highlight one proposal to be voted upon at the Annual Meeting. We are asking shareholders to approve amendments to the Company's Amended Articles of Incorporation, as amended which are designed to protect the Company's ability to utilize the tax benefits of its net operating loss carryforwards in the future. The Proxy Statement includes key information about this proposal and we hope that you will support the Board's recommendation to vote for this critical item.

We appreciate your support of SunLink.

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 2016 ANNUAL MEETING OF SHAREHOLDERS**

**TO BE HELD ON NOVEMBER 7, 2016**

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 7, 2016, at the Hyatt House Hotel, 3595 Cumberland Blvd. SE, Atlanta, Georgia 30339, for the purpose of considering and voting upon:

1. The election of four (4) members of the board of directors named in the Proxy Statement for a term of two (2) years, and until their respective successors are elected and qualified;
2. To approve amendments to the Company's Amended Articles of Incorporation, as amended, to restrict certain transfers of our common shares in order to protect the tax benefits of our net operating loss carryforwards;
3. The ratification of the appointment of Cherry Bekaert LLP as our independent registered public accounting firm for fiscal year 2017; 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 19, 2016 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, 2016 and the related Management's Discussion and Analysis of Financial Condition and Results of Operations are included in our 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. common shares (such as a brokerage statement reflecting your stock ownership) as of September 19, 2016.

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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, or vote via telephone or the Internet. 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.

*/s/ Theresa Mota*

Theresa Mota

Secretary

October 3, 2016



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**SUNLINK HEALTH SYSTEMS, INC.**

**900 Circle 75 Parkway, Suite 1120**

**Atlanta, Georgia 30339**

**PROXY STATEMENT**

**FOR 2016 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 2016 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 7, 2016, at the Hyatt House Hotel, 3595 Cumberland Blvd. SE, Atlanta, Georgia 30339.

These Proxy Materials include:

Our Proxy Statement for the annual meeting; and

Our 2016 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 3, 2016.

**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 2016 annual meeting are the election of four (4) members of the board of directors named in the Proxy Statement; approval of amendments to the Company's Amended Articles of Incorporation, as amended, to restrict certain transfers of our common shares in order to protect the tax benefits of our net operating loss carryforwards; and the ratification of the appointment of Cherry Bekaert LLP as our independent

registered public accounting firm for fiscal year 2017. In addition, our management will report on our performance during fiscal year 2016.

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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 the physical proxy card, the shares will be voted in accordance with the board's recommendations which are:

**FOR** the election of each of the director nominees as directors of the Company for a term of two (2) years, and until their successors are elected and qualified.

**FOR** the approval of amendments to the Company's Amended Articles of Incorporation, as amended.

**FOR** the ratification of the appointment of Cherry Bekaert LLP as the Company's independent registered public accounting firm for fiscal year 2017.

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 19, 2016, which is the record date for the annual meeting. On September 19, 2016, we had 9,443,408 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 as provided to you by your broker or other person who is the holder of record, or if such Internet or telephone access is provided to you by such holder of record, by following the directions to provide your instructions to the record holder via the Internet or by telephone. Regardless of how you hold your shares, we invite you to attend the annual meeting.

**Electronic Availability**

In compliance with the proxy rules promulgated by United States Securities and Exchange Commission (SEC), our Proxy Statement and Annual Report to Shareholders are available over the Internet at [www.proxyvote.com](http://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](http://www.sunlinkhealth.com).



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### **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 6, 2016 for all shares held of record. Depending on whether you are a record holder of your shares, or whether you hold your shares in street name, you may vote by any of the means described below.

#### Voting Procedures for Holders of Record

If you are a holder of record, you may vote your shares by any of the following methods:

**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. Holders of record may vote by telephone 24 hours a day. Our telephone voting system has easy-to-follow instructions and allows record holders to confirm that the system has properly recorded their votes. If you vote by telephone, you do not need to return your proxy card.

**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 for Internet voting. Holders of record 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 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.

**At the Annual Meeting:** You may vote in person 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.

#### Voting Procedures for Beneficial Holders

If you hold your shares in street name, you may vote your shares by any of the following methods:

**By Telephone/Internet:** The availability of telephone and Internet voting for beneficial owners will depend on the voting processes of your broker, bank or other holder of record. Therefore, we recommend that you follow the voting instructions in the materials you receive.

**By Mail:** If you hold your shares in street name, please complete and mail the voting instruction card you receive from your broker, bank or other holder of record.

**At the Annual Meeting:** You may vote in person at the Annual Meeting. 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 in person at the Annual Meeting.

**Broker Vote on Election of Directors, Routine and Non-Routine Proposals** 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. New York Stock Exchange (NYSE) Rule 452 and Section 402.8 of the NYSE Listed Company Manual which regulate broker voting in connection with certain listed companies, including companies listed on the NYSE Amex Equities exchange, 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 ten (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.

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NYSE Amex rules also determine whether proposals presented at the shareholder meetings are routine or not routine. If your holdings of our common shares are held in street name, under the rules of the NYSE your broker or other nominee may vote your shares on certain routine matters, other than the election of directors and compensation matters, if you do not provide such record holder with voting instructions. The ratification of the selection of our independent registered public accountants is considered a routine matter upon which brokerage firms and other nominees may vote on behalf of the beneficial owners if no voting instructions are provided.

While banks and brokers have historically cast their votes on routine items in support of management's recommendations 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 ensure that your shares are voted in accordance with your wishes on Proposals 1, 2 and 3 you should complete and return your voting instruction form before November 4, 2016.*

**Revocation of Proxies:** 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.

### **Holder of Record**

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; (3) provide subsequent telephone or Internet voting instructions within the time permitted for such voting methods; or (4) vote in person at the meeting.

### **Beneficial Holders**

If you are a beneficial holder you can revoke your proxy or voting instructions at any time before your shares are voted if you (1) cause the record holder to submit a written revocation to our Secretary; (2) cause the record holder to submit a later dated proxy if you timely provide updated voting instructions to such holder by mail or if provided by the record holder by Internet or telephone voting; or (3) vote your shares in person at the annual meeting through a later-dated proxy, executed in your favor, from the holder of record.

## **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:**

To elect directors a plurality of the votes cast is required.

Approval of the amendments to the Company's Amended Articles of Incorporation, as amended, requires the affirmative vote of a two thirds of the SunLink common shares outstanding as of the record date.

To ratify the appointment of Cherry Bekaert LLP as the Company's independent registered public accounting firm for fiscal year 2017, a majority of the votes cast is required.

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 3 (Ratification of the Selection of Independent Registered Public Accountants), abstentions will not change the number of votes cast for or against

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these proposals and therefore will have no effect on the approval of these proposals. However, if you abstain from voting on Proposal 2 (approval of amendments to the Company's Amended Articles of Incorporation, as amended), your shares will be counted as present for purposes of establishing a quorum, but the abstention will have the same effect as a vote *against* the proposal. Broker non-votes will also have the same effect as a vote *against* Proposal 2.

## **Other Business; Adjournment and Postponements**

We are not aware of any other business to be acted upon at the annual meeting. If, however, other matters are properly brought before the annual meeting, your proxies will have discretion to vote or act on those matters according to their best judgment.

Any adjournment of the annual meeting may be made from time to time by approval of the holders of a majority of the voting shares held by shareholders present in person or by proxy at the annual meeting, whether or not a quorum exists, without notice other than by an announcement made at the annual meeting. The record date for the annual meeting will continue to be the record date for all adjournments of such meeting unless the Board sets a new record date in which event notice of the record date and of the date to which the meeting has been adjourned will be given in accordance with Ohio law and applicable rules of the NYSE MKT. In all events, the record date for a change in shares will be the time when the certificate of amendment or of amended articles effecting the change is filed in the office of the Secretary of State of Ohio.

If a quorum is not present at the annual meeting, shareholders may be asked to vote on a proposal to adjourn or postpone the annual meeting in order to allow the solicitation of additional proxies. If a quorum is present at the annual meeting, a shareholder vote may be taken on any of the proposals in this Proxy Statement prior to any such adjournment if there are sufficient votes for approval of such proposal. If a quorum is present at the annual meeting but there are not sufficient votes at the time of the annual meeting to approve one or more proposal(s), shareholders may also be asked to vote on a proposal to adjourn or postpone the annual meeting in order to allow the solicitation of additional proxies with respect to any proposals on which action is not taken prior to adjournment of the meeting.

## **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, the executive compensation committee (referred to in this Proxy Statement as the *compensation committee*) and the strategic planning 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 (other than the executive committee), 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 or any other executive officer as well as our comptroller and any other similar accounting officer will be disclosed on our website, [www.sunlinkhealth.com](http://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

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from time-to-time, may be found on the Company's website at [www.sunlinkhealth.com](http://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 of Conduct and other aspects of governance annually or more often if necessary, to remain current in all aspects of corporate governance. The board has also 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**

### *Board Leadership Structure*

Our Company is led by Mr. Robert M. Thornton, Jr. who has served as chief executive officer and chairman of the board of directors since 1998. We combine this traditional leadership structure with a board structure in which our non-management directors meet regularly outside of the presence of Mr. Thornton. We believe that this structure currently works best for the Company by providing us with the benefits of a single person setting the tone and having primary responsibility for managing our operations and provides clear leadership. At the same time, by having a board which is composed mainly of independent directors, including former CEOs, individuals with healthcare industry operating experience, and diverse other talents, we believe that we have created a board that is collegial, well versed in board processes and the duties of the committees on which they sit, and well engaged in their responsibilities. The board believes its members have no reticence about forcefully expressing their views while at the same time fully and fairly considering the views of their fellow directors, and that the members of the board have the experience and ability to critically evaluate the performance of our Chairman and CEO in implementing the strategic, as well as day to day, goals of the Company. Although the board periodically evaluates alternative board governance models and refinements to the existing structure, it believes, after assessing the current service of the Company's Chairman and CEO and the current composition of the board, that the current board leadership structure is appropriate for the Company.

### *Independence*

The board of directors is required to consist of a majority 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.

The board of directors has determined that, as of September 19, 2016, six (6) of the Company's seven (7) incumbent directors are independent under these guidelines: Ms. Brenner and Messrs. Baileys, Bursleson, Ford, Turner and Mills. 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.

*Role of the Board in Risk Oversight*

The business of the Company is managed by the Company's employees under the direction and oversight of the board. Among the oversight activities of the board is the broad oversight of risk. Risk is inherent in virtually

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every business activity. Accordingly, the board's primary role with respect to risk is to ensure that the Company's management implements appropriate procedures designed to identify and, where possible, quantify and/or mitigate risks. The board administers its risk oversight function both at a board level and through its various committees. Our board committees consider, among other things, risk issues within their areas of responsibilities. For example: The audit committee oversees the accounting and financial reporting process, the adequacy of our risk-related internal financial controls, internal audit, the impact of risks on our current financial position, and related compliance matters. The compensation committee oversees the annual performance evaluations of executive management, succession planning, and the evaluation of risks that may be implicated by the Company's compensation structure. The responsibilities of the individual committees are discussed in greater detail elsewhere in this Proxy Statement.

### *Business Combinations*

In the event SunLink receives any formal written offer to purchase more than 20% of the Company's outstanding common shares, 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 strategic planning committee has established three criteria for any takeover proposal it considers: (1) adequate price both in light of the limited trading market for the Company's common shares and the factors analyzed by the Board in connection with the Company's current plans to go private, (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 of its members to attend the annual meeting of shareholders. In November 2015, all director nominees and all then directors were personally present at the annual meeting of shareholders, except Mr. Mills.

## **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.

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

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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 chairperson of the Company's compliance committee (consisting of the Corporate Risk Manager, one facility Risk Manager and one facility CEO) at the Company's headquarters or by telephone at (866) 244-5952. The officer responsible for such services or his designee will refer the concern to the compliance committee or, if appropriate, the chairperson of the audit committee to ensure 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, employment by third parties 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 in connection 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 board's audit committee, with such action reported to the Company's independent directors. To assist in identifying related party transactions, each director and executive 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.

## **BENEFICIAL OWNERSHIP OF OUR COMMON SHARES**

### **Common Shares Owned By Management and Certain Beneficial Owners**

The following table sets forth, as of September 19, 2016 (unless otherwise indicated in the footnotes), certain information with respect to our common shares 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

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common shares. Except as noted in the footnotes, each of the persons listed has sole investment and voting power with respect to the common shares included in the table.

Name <sup>(1)</sup>	Common Shares Beneficially Owned As of September 19, 2016	
	Number <sup>(2)</sup>	% of Class <sup>(3)</sup>
Robert M. Thornton, Jr. Director, Chairman, President and Chief Executive Officer	761,845 <sup>(4)</sup>	7.9
Mark J. Stockslager Chief Financial Officer and Principal Accounting Officer	178,264 <sup>(5)</sup>	1.9
Byron D. Finn President, SunLink ScriptsRx, LLC	0	*
Dr. Steven J. Baileys Director	1,186,715 <sup>(6)</sup>	12.5
Karen B. Brenner Director	198,332 <sup>(7)</sup>	2.1
Gene E. Burleson Director	127,600 <sup>(8)</sup>	1.3
C. Michael Ford Director	117,857 <sup>(8)</sup>	1.2
Howard E. Turner Director	462,715 <sup>(8)</sup>	4.9
Christopher H. B. Mills Director	1,773,299 <sup>(9)(10)</sup>	18.7
Berggruen Holdings North America Ltd.	704,039 <sup>(11)</sup>	7.5
Directors, Nominees and Executive Officers as a group (9 persons)	4,806,627 <sup>(12)</sup>	47.8

\* 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.

- (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 outstanding common shares owned is determined by assuming that in each case the person only, or group only, exercises his, her or its rights to purchase all of the common shares underlying options held by such person or group that are exercisable as of September 19, 2016, or that will become exercisable within 60 days after that date.
- (4) Includes 190,000 shares that may be acquired under options exercisable within 60 days of September 19, 2016. Also includes 233,384 shares owned by CareVest Capital, LLC ( CareVest ). Mr. Thornton owns 100% of the outstanding voting interests of CareVest.
- (5) Includes 75,000 shares that may be acquired under options exercisable within 60 days of September 19, 2016.
- (6) Includes 60,357 shares that may be acquired under options exercisable within 60 days of September 19, 2016. Also includes 574,602 shares held by Beilihis Investments, LLC ( Beilihis ), which is a private investment firm. Dr. Baileys is the managing member of Beilihis.
- (7) Includes 60,357 shares that may be acquired under options exercisable within 60 days of September 19, 2016. Also includes 108,714 shares held by Fortuna Asset Management, LLC ( Fortuna ), which is an

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investment advisory firm, or by Fortuna's defined benefit plan. Ms. Brenner is the president of Fortuna. Ms. Brenner's ownership information also includes 29,261 shares which are owned by Ms. Brenner and her immediate family and related entities.

- (8) Includes 60,357 shares that may be acquired under options exercisable within 60 days of September 19, 2016.
- (9) Includes 54,857 shares that may be acquired by Mr. Mills under options exercisable within 60 days of September 19, 2016.
- (10) 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 6 Stratton Street, London W1J 8LD England. 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 Company's common shares owned by such entities. 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, Umland 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 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 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 P.O. Box 938, 65 Vitti Street, New Canaan, Connecticut. John W. Gildea is a U.S. citizen whose principal business address is P.O. 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 P.O. Box 938, 65 Vitti Street, New Canaan, Connecticut. 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 member 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:

<b>Group Member</b>	<b>Aggregate Number of Shares</b>	<b>Number of</b>	<b>Number of</b>	<b>Number of</b>	<b>Number of</b>	<b>Approximate Percentage</b>
		<b>Shares: Sole Power to Vote</b>	<b>Shares: Shared Power to Vote</b>	<b>Shares: Sole Power to Dispose</b>	<b>Shares: Shared Power to Dispose</b>	
Harwood Capital LLP	318,442		318,442		318,442	3.4
North Atlantic Smaller Companies Investment Trust Plc	1,400,000		1,400,000		1,400,000	14.8
Christopher H. B. Mills	1,718,442		1,718,442		1,718,442	18.7

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- (11) Includes aggregate holdings under a joint filing on Schedule 13D dated March 25, 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.
- (12) Includes 621,642 shares that may be acquired under options exercisable within 60 days of September 19, 2016.



**Table of Contents****PROPOSAL 1 TO BE VOTED ON BY SHAREHOLDERS****Proposal 1 Election of Directors**

The Company's board of directors is presently comprised of seven (7) members. One class of directors is normally elected at each annual meeting of shareholders for a term of two (2) years. At the 2016 annual meeting, shareholders will elect four (4) members to the board of directors who will hold office until the annual meeting of shareholders in 2018. 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, and until their successors are elected and qualified.

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.

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

<b>Directors Whose Term of Office Expires in 2017:</b>	<b>Name and Offices Presently Held with Company</b>	<b>Director Since</b>
Robert M. Thornton, Jr.	Director, Chairman, President and Chief Executive Officer	1996
Dr. Steven J. Baileys	Director	2000
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 (5) years, is set forth below.

**Karen B. Brenner**, 63, 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. Ms. Brenner was deemed qualified to serve on the board for the reasons set forth below under Director Qualifications, including her business experience set forth herein.

**C. Michael Ford**, 77, has been President of Ocmulgee Land Trust, Inc. since July 2011. Mr. Ford was the Chief Executive Officer of Newtown Macon, Inc. until March 31, 2014 and its Chief Financial Officer from October 2002 to November 2003. He was Chairman of the Board of In Home Health, Inc. from February 2000 to

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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. Mr. Ford was deemed qualified to serve on the board for the reasons set forth below under Director Qualifications, including his business experience set forth herein.

**Howard E. Turner**, 74, has been a partner in the law firm of Smith, Gambrell & Russell, LLP, since 1971. Mr. Turner has served in the past as a director of Avlease, Ltd., a lessor of large commercial aircraft and 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. Mr. Turner was deemed qualified to serve on the board for the reasons set forth below under Director Qualifications, including his business experience set forth herein.

**Christopher H. B. Mills**, 63, is a Director and the Chief Investment Officer of Harwood Capital Management and has served in such capacity since October 30, 2011. From January 1993 until October 2011, Mr. Mills was a Director and the Chief Investment Officer of J. O. Hambro. 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. Mr. Mills was deemed qualified to serve on the board for the reasons set forth above under Director Qualifications, including his business experience set forth herein.

**Robert M. Thornton, Jr.**, 67, 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 also 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. Mr. Thornton was deemed qualified to serve on the board for the reasons set forth below under Director Qualifications, including his business experience set forth herein.

**Dr. Steven J. Baileys**, 62, 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. Dr. Baileys was deemed qualified to serve on the board for the reasons set forth below under Director Qualifications, including his business experience set forth herein.

**Gene E. Burleson**, 75, is a private investor and was Chairman of PET DRx Corporation from June 2005 to July 1, 2010 and its Chief Executive Officer from October 2008 until its acquisition by VCA Antech in July 2010. Mr. Burleson was a 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. Mr. Burleson was deemed qualified to serve on the board for the reasons set forth below under Director Qualifications, including his business experience set forth herein.

## **Nominees for Election as Directors for a Two-Year Term Expiring In 2018**

*Nomination of Directors*

We currently do not have a standing nominating committee. Our entire board of directors performs the functions of the nominating committee. Our board does not believe that it needs a separate nominating committee

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because the full board is comprised predominately of independent directors and has the time and resources to perform the function of selecting board nominees. When our board performs its nominating function, it acts in accordance with our Articles of Incorporation and Code of Regulations but does not have a separate charter related to the nomination process.

### *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 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 each director 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 (Baileys, Brenner, Burleson, Ford, Thornton and Turner), prior experience in the healthcare services industry (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 (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 (Burleson, Ford and Thornton) or a current 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 (Baileys, Brenner, and Burleson), and financial expertise (Brenner and Ford). Each director identified in greater detail in their biographies as an incumbent director of SunLink or as having served as an officer, director or both of one or more other public companies (Baileys, Burleson, Thornton and Mills) 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, 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 in their biography as having applicable healthcare services industry experience (Baileys, Burleson, Ford and Thornton), 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.

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The board 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 board 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 facilitate the success of SunLink's business and represent shareholder interests through the exercise of sound judgment using its diversity of experience. The board 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 six (6) meetings during fiscal 2016. The board has four (4) standing committees: an executive committee, an audit committee, a compensation committee and a strategic planning committee. Each standing committee had the right to retain, in the fiscal year ended June 30, 2016, its own legal and other advisors. During the fiscal year ended June 30, 2016, all directors, except Mr. Mills, attended 75% or more of the meetings of the full board of directors. During the fiscal year ended June 30, 2016, all directors attended 75% or more of the meetings of the individual committees of the board of directors upon which they served.

**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, 2016.

Name	Audit	Compensation	Executive	Strategic
Dr. Baileys				C
Ms. Brenner				
Mr. Burleson		C		
Mr. Ford	C			
Mr. Mills				
Mr. Thornton			C	
Mr. Turner				
2016 Meetings	4	1	1	2

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;



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

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 SEC, including:

reviewing and discussing with management and the independent registered public accounting firm the financial statements to be included in the Company's 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 the Company's accounting and financial controls, and the written disclosures required by Independence Standards Board Standard No. 1 regarding such firm's independence;

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

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

reviewing the potential engagement of the Company's 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 the Company's 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.

The 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 the Company's Code of Conduct.

Each member of the audit committee is 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 "1934 Act"). 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](http://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 of 1986, as amended (the Code) and the regulations thereunder). Our compensation committee charter is available on our website at [www.sunlinkhealth.com](http://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*

The compensation of our executive officers is determined by the compensation committee on an annual basis subject to minimum compensation thresholds pursuant to employment agreements and letters previously

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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, the committee also considers the recommendations of our chairman of the board and chief executive officer. The compensation committee meets at various times during the year, and it also considers and takes action by written consent. The compensation 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 recommends 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 compensation 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 strategic planning 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 the 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 strategic planning committee; and

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Annually reviews and assesses the Strategic Planning Committee Charter and submits recommended changes to the board.

The Strategic Planning Committee Charter is available on our website at [www.sunlinkhealth.com](http://www.sunlinkhealth.com).

**Nomination Procedures and Shareholder Nominations**

The board does not have a nominating committee but has adopted a nominating resolution which provides that the board believes it to be in the best interest of the Company and the best interest of the Company's 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 which are to be filled, that the board will actively seek individuals qualified to become board members based on business experience, professional expertise, industry experience and diversity. 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 51 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 2016****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, 2016:

Name	Fees Earned or Paid		Option Awards (\$) <sup>(2)</sup>	Non-Equity Incentive Plan Compensation (\$)	Change in Pension Value and Nonqualified Deferred Compensation Earnings	All Other Compensation (\$)	Totals (\$)
	Cash (\$) <sup>(1)</sup>	Stock Awards (\$)					
Dr. Steven J. Baileys	42,000	N/A	8,950	N/A	N/A	N/A	50,950
Karen B. Brenner	40,000	N/A	8,950	N/A	N/A	N/A	48,950
Gene E. Burlson	44,000	N/A	8,950	N/A	N/A	N/A	52,950
C. Michael Ford	42,000	N/A	8,950	N/A	N/A	N/A	50,950
Christopher H. B. Mills	36,000	N/A	8,950	N/A	N/A	N/A	44,950
Howard E. Turner <sup>(3)</sup>	36,000	N/A	8,950	N/A	N/A	N/A	44,950

(1) **Cash Compensation.** Non-management directors receive a base fee for director compensation of \$36,000 per year, payable on a monthly basis in equal installments. In addition, each non-management member of the Audit Committee, Compensation Committee and Strategic Planning Committee was paid an annual fee of \$2,000, with the committee chair receiving \$4,000. Non-management Executive Committee members received a fee of \$2,000 per meeting.

(2) **Equity Compensation.** The Company made equity-based compensation awards to directors during fiscal year 2016 in the form of options, all of which were vested as of the grant date of September 10, 2015. Although each non-employee director is technically eligible to participate in the Company's 2001 Outside Directors' Stock Ownership and Stock Option Plan and in the 2005 Equity Incentive Plan, the last shares available for new grants

to directors under either such plan were utilized in 2005. The compensation committee approved the award of options for 5,000 shares to each of the six non-management board members (30,000 total options) to be vested immediately and exercisable over a 10 year period at the market price of the Company's common stock on date of grant. For fiscal year 2017, the compensation committee has approved the award of options for 12,000 shares to each of the six non-management board members (72,000 total options) to be vested immediately and exercisable over a 10 year period at the market price of the Company's common stock on date of grant.

- (3) **Other Arrangements.** Mr. Turner is a partner of the law firm of Smith, Gambrell & Russell, LLP. Such law firm provided legal services to the Company in the fiscal year ended June 30, 2016 at customary rates and continues to provide such services to the Company in the fiscal year ending June 30, 2017.

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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, 2016:

Name	Option Awards				Stock Awards			
	Number of Securities Underlying Unexercised Options (#) <sup>(1)</sup>	Number of Securities Underlying Exercised Options (#) <sup>(1)</sup>	Exercise Price (\$)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#) <sup>(2)</sup>	Value of Shares or Units of Stock That Have Not Vested (\$)	Number of Shares, Units or Rights That Have Not Vested (#)	Value of Unearned Shares, Units or Rights That Have Not Vested (\$)
Dr. Steven J. Baileys	5,500		6.55	05/15/2017	N/A	N/A	N/A	N/A
	4,857		8.00	09/23/2017				
	10,000		1.67	11/10/2021				
	20,000		1.22	09/05/2022				
	3,000		0.71	09/16/2023				
	5,000		1.79	09/10/2025				
Karen B. Brenner	5,500		6.55	05/15/2017	N/A	N/A	N/A	N/A
	4,857		8.00	09/23/2017				
	10,000		1.67	11/10/2021				
	20,000		1.22	09/05/2022				
	3,000		0.71	09/16/2023				
	5,000		1.79	09/10/2025				
Gene E. Burleson	5,500		6.55	05/15/2017	N/A	N/A	N/A	N/A
	4,857		8.00	09/23/2017				
	10,000		1.67	11/10/2021				
	20,000		1.22	09/05/2022				
	3,000		0.71	09/16/2023				
	5,000		1.79	09/10/2025				
C. Michael Ford	5,500		6.55	05/15/2017	N/A	N/A	N/A	N/A
	4,857		8.00	09/23/2017				
	10,000		1.67	11/10/2021				



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	20,000	1.22	09/05/2022				
	3,000	0.71	09/16/2023				
	5,000	1.79	09/10/2025				
Christopher H. B. Mills	4,857	8.00	09/23/2017	N/A	N/A	N/A	N/A
	10,000	1.67	11/10/2021				
	20,000	1.22	09/05/2022				
	3,000	0.71	09/16/2023				
	5,000	1.79	09/10/2025				
Howard E. Turner	5,500	6.55	05/15/2017	N/A	N/A	N/A	N/A
	4,857	8.00	09/23/2017				
	10,000	1.67	11/10/2021				
	20,000	1.22	09/05/2022				
	3,000	0.71	09/16/2023				
	5,000	1.79	09/10/2025				

- (1) Includes grants of options under the Company's 2005 Equity Incentive Plan and the 2011 Directors Stock Option 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 19, 2016, their positions with the Company or our subsidiaries, and the ages of such executive officers are as follows:

<b>Name</b>	<b>Office</b>	<b>Age</b>
Robert M. Thornton, Jr.	Director, Chairman of the Board of Directors, President and Chief Executive Officer	67
Mark J. Stockslager	Chief Financial Officer and Principal Accounting Officer	57
Byron D. Finn	President, SunLink ScriptsRx, LLC	66

*Current Executive Officers*

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:

**Mark J. Stockslager**, 57, 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 Nove