

SUNLINK HEALTH SYSTEMS INC

Form S-4/A

August 11, 2003

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As filed with the Securities and Exchange Commission on August 11, 2003

Registration No. 333-102803

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

PRE-EFFECTIVE AMENDMENT NO. 3

TO

FORM S-4 REGISTRATION STATEMENT

*UNDER
THE SECURITIES ACT OF 1933*

SUNLINK HEALTH SYSTEMS, INC.

(Exact name of registrant as specified in its charter)

Ohio
(State of Other Jurisdiction of
Incorporation or Organization)

8062
(Primary Standard Industrial
Classification Code Number)

31-0621189
(I.R.S. Employer
Identification Number)

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900 Circle 75 Parkway, Suite 1300

Atlanta, Georgia 30339

(770) 933-7000

(Address, Including Zip Code, and Telephone Number, Including Area Code, of Registrant's Principal Executive Offices)

Robert M. Thornton, Jr.

Chairman

SunLink Health Systems, Inc.

900 Circle 75 Parkway, Suite 1300

Atlanta, Georgia 30339

(770) 933-7000

(Name, address, including zip code, and telephone number, including area code, of agent for service)

Copies Of Communications To:

Howard E. Turner, Esq.	William H. Neely, Esq.
M. Timothy Elder, Esq.	Albert J. Bart, Esq.
Smith, Gambrell & Russell, LLP	Stokes Bartholomew Evans & Petree, P.A.
1230 Peachtree Street, N.E., Suite 3100	424 Church Street, Suite 2800
Atlanta, Georgia 30309	Nashville, Tennessee 37219
Telephone: (404) 815-3594	Telephone: (615) 259-1450
Telecopy: (404) 685-6894	Telecopy: (615) 259-1470

Approximate date of commencement of proposed sale to the public: As soon as practicable after the effective date of this registration statement.

If the securities being registered on this Form are being offered in connection with the formation of a holding company and there is compliance with General Instruction G, check the following box. " If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. " If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. "

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SUNLINK HEALTH SYSTEMS, INC.
900 CIRCLE 75 PARKWAY, SUITE 1300
ATLANTA, GEORGIA 30339

August 12, 2003

Dear SunLink shareholder:

You are cordially invited to attend the special meeting of shareholders of SunLink which will be held at 10:00 a.m., local time, on September 18, 2003, at the Sheraton Suites Galleria, 2844 Cobb Parkway S.W., Atlanta, Georgia 30339.

The accompanying notice of the special meeting and joint proxy statement/prospectus contain detailed information concerning the matters to be considered and acted upon at the meeting, including the proposed acquisition of HealthMont.

After careful consideration, SunLink's board of directors has determined that the merger and the merger agreement are fair to you and in your best interests. SunLink's board of directors has approved the merger agreement and unanimously recommends that you vote **FOR** the approval of the transaction, which involves a single vote with respect to the merger agreement and the issuance of SunLink shares, options, and warrants in and pursuant to the merger at the special meeting.

The accompanying joint proxy statement/prospectus provides you with information about SunLink, HealthMont and the proposed merger. In addition, you may obtain information about SunLink from documents that we have filed with the Securities and Exchange Commission. We encourage you to read the entire joint proxy statement/prospectus carefully. **In particular, you should read the section entitled Risk Factors beginning on page 13 for a description of certain risks that you should consider in evaluating the merger.**

Your vote is very important. We hope you will be able to attend the meeting but whether or not you plan to attend the special meeting of shareholders of SunLink, please take the time to vote by marking, signing and dating the enclosed proxy card and returning it in the return envelope provided. If you sign, date and mail your proxy card without indicating how you want to vote, your proxy will be counted as a vote in favor of approval of the merger agreement and the other matters presented at the meeting. If you later find you can attend the meeting, you may then withdraw your proxy and vote in person. If you have questions or need assistance regarding your shares, please call our proxy solicitor, Georgeson Shareholder Communications, Inc., toll free, at 1 (866) 203-9401.

Sincerely,

ROBERT M. THORNTON, JR.

President and Chief Executive Officer

Neither the Securities and Exchange Commission nor any state securities commission has approved the securities to be issued under the joint proxy statement/prospectus or determined if the joint proxy statement/prospectus is accurate or adequate. Any representation to the contrary is a criminal offense.

The joint proxy statement/prospectus is dated August 12, 2003, and is first

being mailed to shareholders of SunLink on August 13, 2003.

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HEALTHMONT, INC.
111 LONG VALLEY ROAD
BRENTWOOD, TENNESSEE 37027

August 12, 2003

Dear HealthMont shareholder:

You are cordially invited to attend a special meeting of the shareholders of HealthMont, Inc. to be held on Wednesday, September 17, 2003, at 10:00 a.m., local time, at the offices of Stokes Bartholomew Evans & Petree, P.A., 424 Church Street, Suite 2800, Nashville, Tennessee 37219.

The accompanying Notice of Special Meeting and joint proxy statement/prospectus contain information concerning the matters to be considered and acted upon at the meeting in connection with the proposed acquisition of HealthMont by SunLink Health Systems, Inc. through a merger of HealthMont with and into a wholly-owned subsidiary of SunLink.

After careful consideration, HealthMont's Board of Directors has determined that the terms of the proposed merger and the related transactions are fair and in the best interests of HealthMont and its shareholders. Accordingly, the Board of Directors approved the Agreement and Plan of Merger, the merger contemplated thereby and the related transactions, and recommends that HealthMont's shareholders vote **FOR** approval of the same.

The accompanying joint proxy statement/prospectus and the information incorporated by reference therein and provided therewith contain information concerning HealthMont, SunLink, and the proposed transactions. You are encouraged to read all of these materials carefully.

We hope that you will be able to attend the meeting.

Your vote is important. Whether or not you plan to attend the meeting, please complete, date, and sign the enclosed proxy and mail it promptly in the postage-paid envelope provided. You may revoke your proxy at any time before it is voted. If you have questions or need assistance with your proxy, please contact us at 1 (615) 309-2166.

Sincerely,

Timothy S. Hill

Chief Executive Officer and President

HealthMont, Inc.

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**NOTICE OF
SPECIAL MEETING OF SHAREHOLDERS
OF SUNLINK HEALTH SYSTEMS, INC.
MERGER PROPOSAL YOUR VOTE IS VERY IMPORTANT**

To the shareholders of SunLink Health Systems, Inc.:

A special meeting of SunLink shareholders will be held at 10:00 a.m., local time on Thursday, September 18, 2003, at the Sheraton Suites Galleria, 2844 Cobb Parkway S.W., Atlanta, Georgia 30339.

The board of directors of SunLink Health Systems, Inc. has approved a merger agreement between SunLink, a wholly owned subsidiary of SunLink, and HealthMont, Inc., a corporation organized under the laws of Tennessee, in which HealthMont will become a wholly owned subsidiary of SunLink.

If the merger is completed, we will issue 1,130,565 SunLink shares in exchange for the outstanding capital stock of HealthMont. Accordingly, based on the number of HealthMont shares expected to be outstanding at the closing of the merger each HealthMont shareholder is expected to receive one common share of SunLink for each 5.5249 HealthMont shares (approximately 0.1810 of a share of SunLink for each share of HealthMont). SunLink will issue 95,000 additional shares in connection with the transaction to settle certain contractual obligations of HealthMont to its officers and directors. SunLink will also obligate itself to issue approximately 20,000 of its common shares in connection with certain outstanding HealthMont options, approximately 27,000 shares upon exercise of outstanding warrants of HealthMont, and 75,000 shares upon exercise of warrants to be issued by SunLink in connection with the transaction financing. Based on the above, we estimate that SunLink will issue up to a total of approximately 1,372,000 shares of SunLink common stock in the merger or in connection with obligations assumed pursuant to the merger. The shares expected to be issued to HealthMont shareholders immediately after the merger, along with shares of SunLink issuable pursuant to the assumed obligations described above, would represent approximately 21.2% of the SunLink shares expected to be outstanding immediately after the merger.

SunLink common stock is traded on the American Stock Exchange under the trading symbol SSY, and on August 4, 2003, the closing price of SunLink common stock was \$2.60 per share.

We cannot complete the merger unless SunLink's shareholders approve (1) the merger agreement and (2) the issuance of SunLink shares, options, and warrants in the merger. We will not complete the merger unless all of the proposals with respect to the merger are approved. We also can not complete the merger unless HealthMont shareholders approve the merger agreement. HealthMont has scheduled its own special meeting for its shareholders to vote on the merger.

In connection with the transaction, SunLink also will assume approximately \$10,200,000 in HealthMont senior debt and capital lease obligations, and will enter into a \$3,000,000, 3-year, term loan intended primarily to provide additional working capital.

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After careful consideration, SunLink's board of directors has determined that the acquisition of HealthMont pursuant to the merger agreement is fair to you and in your best interests. SunLink's board of directors has approved the merger agreement and unanimously recommends that you vote FOR the approval of the merger agreement and the transactions contemplated thereby at the special meeting.

The accompanying joint proxy statement/prospectus provides you with information about SunLink, HealthMont, and the proposed merger. In addition, you may obtain information about the transaction from documents that we have filed with the Securities and Exchange Commission. We encourage you to read the entire joint proxy statement/prospectus carefully. **In particular, you should read the section entitled Risk Factors beginning on page 13 for a description of certain risks that you should consider in evaluating the merger.**

Your vote is very important. Approval of the merger agreement and the transactions contemplated thereby will require, under Ohio law, the affirmative vote of the holders of two-thirds of SunLink's outstanding common stock. Whether or not you plan to attend the SunLink special meeting, please take the time to vote by marking, signing, and dating the enclosed proxy card and returning it in the return envelope provided. If you sign, date, and mail your proxy card without indicating how you want to vote, your proxy will be counted as a vote in favor of approval of the merger agreement and the other matters presented at the meeting. If you attend the special meeting, you may, if you desire, withdraw your proxy and vote in person. If you have questions or need assistance regarding your shares, please call our proxy solicitor, Georgeson Shareholder Communications, Inc., toll free, at 1 (866) 203-9401.

Sincerely,

ROBERT M. THORNTON, JR.

President and Chief Executive Officer

SunLink Health Systems, Inc.

Neither the Securities and Exchange Commission nor any state securities commission has approved the securities

to be issued under the joint proxy statement/prospectus or determined if the joint proxy statement/prospectus is accurate or adequate. Any representation to the contrary is a criminal offense.

The joint proxy statement/prospectus is dated August 12, 2003, and is first being mailed to shareholders

of SunLink on August 13, 2003.

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HEALTHMONT, INC.

111 LONG VALLEY ROAD

BRENTWOOD, TENNESSEE 37027

NOTICE OF SPECIAL MEETING OF SHAREHOLDERS

TO BE HELD ON WEDNESDAY, SEPTEMBER 17, 2003

To the shareholders of HealthMont, Inc.:

Notice is hereby given of a special meeting of the shareholders of HealthMont, Inc., a Tennessee corporation ("HealthMont"), to be held on Wednesday, September 17, 2003, at 10:00 a.m., local time, at the offices of Stokes Bartholomew Evans & Petree, P.A., 424 Church Street, Suite 2800, Nashville, Tennessee 37219, for the following purposes:

1. To consider and vote upon a proposal to approve the Agreement and Plan of Merger, dated as of October 15, 2002, as amended on March 24, 2003, and July 30, 2003, by and among HealthMont and SunLink Health Systems, Inc., an Ohio corporation ("SunLink"), and a wholly-owned subsidiary of SunLink, pursuant to which HealthMont will combine with SunLink through the merger of HealthMont with and into SunLink's wholly-owned subsidiary. The merger agreement and the amendments thereto are attached hereto as **Annex A** of the joint proxy statement/prospectus, (the "joint proxy statement/prospectus") which is provided herewith. As part of the merger, each share of HealthMont common stock outstanding at the time of the merger will be converted into the right to receive a certain number of shares of SunLink common stock, as described in the merger agreement and
2. To transact such other business as may properly come before the special meeting and any adjournments or postponements thereof.

HealthMont has fixed the close of business on Monday, August 4, 2003, as the record date for the determination of shareholders entitled to notice of and to vote at its special meeting and at any adjournments or postponements thereof.

Your attention is directed to the joint proxy statement/prospectus accompanying this notice of special meeting for more complete information regarding the matters to be presented and acted upon at the special meeting.

The Board of Directors of HealthMont recommends that you vote **FOR** the merger proposal which includes approval of the merger agreement, the merger contemplated thereby and the related transactions.

Your vote is important. Approval of the merger proposal at the special meeting will require, under Tennessee law, the affirmative vote of the holders of a majority of HealthMont's outstanding common stock. However, in connection with the terms of a previous agreement between HealthMont and certain of its founding shareholders, the merger agreement provides that it is a condition to the parties' obligations to complete the merger that the holders of at least 75% of HealthMont's outstanding common stock approve the merger proposal. In the event that the merger

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proposal receives the affirmative vote of the holders of at least a majority, but less than 75%, of HealthMont's outstanding common stock, unless the shareholder approval conditions contained in the merger agreement and the related agreements are waived by the appropriate parties, the merger and related transactions will not be completed.

If you fail to return a properly executed proxy or to vote in person at the special meeting, or if you abstain, the effect will be a vote against the merger proposal.

Please do not send any stock certificates with your proxy card at this time.

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Shareholders who comply with Chapter 23 of the Tennessee Business Corporation Act (the "TBCA") have the right to dissent from the merger and to obtain payment of the fair value of their shares of HealthMont common stock. A copy of Chapter 23 of the TBCA is attached to the joint proxy statement/prospectus as **Annex D** for your reference. Please see the section entitled *The Merger Agreement Dissenters' Rights* in the accompanying joint proxy statement/prospectus for a discussion of the procedures to be followed in asserting these dissenters' rights.

By Order of the Board of Directors of

HealthMont, Inc.

Richard E. Ragsdale, Secretary

Brentwood, Tennessee

August 12, 2003

TO ASSURE THAT YOUR SHARES ARE REPRESENTED AT THE SPECIAL MEETING, PLEASE COMPLETE, DATE AND SIGN THE ENCLOSED PROXY AND MAIL IT PROMPTLY IN THE POSTAGE-PAID ENVELOPE PROVIDED, WHETHER OR NOT YOU PLAN TO ATTEND THE MEETING. YOU MAY REVOKE YOUR PROXY AT ANY TIME BEFORE IT IS VOTED.

Neither the Securities and Exchange Commission nor any state securities commission has approved the securities to be issued under the joint proxy statement/prospectus or determined if the joint proxy statement/prospectus is accurate or adequate. Any representation to the contrary is a criminal offense.

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**QUESTIONS AND ANSWERS ABOUT THE MERGER
AND THE SPECIAL MEETINGS**

Q: How is the acquisition structured?

A: The acquisition will be structured as a merger in which the shareholders of HealthMont will receive approximately 0.1810 of a share of SunLink in exchange for each share of HealthMont that they hold. HealthMont will merge with and into HM Acquisition Corp., a wholly-owned subsidiary of SunLink, with that subsidiary continuing to be a wholly-owned subsidiary of SunLink.

Q: When will I be asked to approve the merger?

A: SunLink will hold its special meeting of SunLink shareholders at 10:00 a.m., local time, on September 18, 2003, at the Sheraton Suites Galleria, 2844 Cobb Parkway S.W., Atlanta, Georgia 30339. At the special meeting, you will be asked to approve the merger. You can vote at the special meeting if you owned SunLink common stock at the close of business on August 4, 2003, the record date for the SunLink special meeting.

HealthMont will hold a special meeting of HealthMont shareholders on September 17, 2003 at 10:00 a.m. local time, at the offices of Stokes Bartholomew Evans & Petree, P.A., 424 Church Street, Suite 2800, Nashville, Tennessee 37219. At the HealthMont special meeting, you will be asked to approve the merger. You can vote at the HealthMont special meeting if you owned HealthMont common stock at the close of business on August 4, 2003, the record date for the HealthMont special meeting.

Q: Why are the two companies proposing to merge?

A: The boards of directors of SunLink and HealthMont each have determined that the acquisition of HealthMont by SunLink through the merger of HealthMont into a wholly-owned subsidiary of SunLink is in the best interests of their respective corporations and shareholders and presents a favorable opportunity to achieve long-term strategic and financial benefits. SunLink believes that the two HealthMont hospitals it will acquire are compatible with its business strategy of operating community hospitals.

Q: When do you expect the merger to be completed?

A: We are working as quickly as possible and expect to complete the merger by September 30, 2003. However, it is possible that factors outside the control of the parties could require us to complete the merger at a later time. Accordingly, we cannot predict the exact timing of the merger.

Q: What am I being asked to vote on?

A: Both the SunLink and HealthMont shareholders are being asked to approve the proposed merger of HealthMont into a wholly-owned subsidiary of SunLink. The SunLink shareholders are also being asked to approve the issuance of SunLink common stock, options, and warrants in connection with the proposed merger.

Q: What do I need to do now?

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- A: After you carefully read this document, mail your signed proxy card in the enclosed envelope as soon as possible. In order to assure that your vote is obtained, please vote your proxy as instructed on your proxy card even if you currently plan to attend the applicable meeting in person.

If you sign and send the proxy card without indicating how you want to vote, we will count your proxy card as a vote in favor of the merger.

The boards of directors of SunLink and HealthMont have recommended to their respective shareholders that they vote **FOR** the merger.

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Q: What are the consequences of a failure to vote?

A: Because approval of the merger transaction requires the affirmative vote of two-thirds of the outstanding shares of common stock of SunLink and the affirmative vote of seventy-five percent of the outstanding shares of common stock of HealthMont, if you do not vote your shares, or, with respect to shares of SunLink common stock, do not instruct your broker how to vote shares held for you in street name, the effect will be the same as a vote against the merger.

Q: If my shares of SunLink common stock are held in street name, will my broker vote my shares for me?

A: No. Your broker will not vote your shares without instructions from you. If you do not provide your broker with instructions on how to vote your street name shares, your broker will not vote them on any of the proposals. If you do not give voting instructions to your broker, you will not be counted as voting your shares, unless you appear in person at your company's shareholder meeting with a legal, valid proxy from the record holder. You should be sure to provide your broker with instructions on how to vote your shares.

Q: Can I change my vote after I have mailed my proxy card?

A: Yes. You can change your vote at any time before your proxy is voted at your company's shareholder meeting. You can do this in one of three ways:

timely delivery of a valid, later-dated proxy;

written notice to your company's corporate secretary before the meeting that you have revoked your proxy; or

voting in person at your company's special meeting after revoking your proxy.

If you are a SunLink shareholder and have instructed a broker to vote your shares, you must follow directions from your broker to change those instructions.

Q: Should I send in my stock certificates now?

A: No. If the merger is completed, SunLink will send HealthMont shareholders written instructions for exchanging their stock certificates. SunLink shareholders will keep their existing stock certificates.

If you would like additional copies of this document, or if you have questions about the merger, including the procedures for voting your shares, please contact:

If you are a SunLink shareholder:

If you are a HealthMont shareholder:

Georgeson Shareholder

HealthMont, Inc.

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Communications, Inc.

111 Long Valley Road

17 State Street, 10th Floor

Brentwood, Tennessee 37027

New York, New York 10004

Phone Number: 1 (615) 309-2166

Phone Number: 1 (866) 203-9401
or

SunLink Health Systems, Inc.

900 Circle 75 Parkway, Suite 1300

Atlanta, Georgia 30339

Phone Number: 1 (770) 933-7000

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SUMMARY

This summary highlights selected information from this joint proxy statement/prospectus and may not contain all of the information that is important to you. To understand the merger fully and for a more complete description of the legal terms of the merger agreement, you should carefully read this entire joint proxy statement/prospectus and the other documents to which this document refers. See "Where You Can Find More Information" at page 135. We have included page numbers in parenthesis to direct you to a more complete description of some of the topics presented in this summary.

The Companies

(See page 91 and Annex F)

SunLink Health Systems, Inc.

900 Circle 75 Parkway, Suite 1300

Atlanta, Georgia 30339

Phone Number: 1 (770) 933-7000

SunLink is a provider of healthcare services through the operation of community hospitals. SunLink supports the efforts of its community hospitals to link their patients' needs with the professional expertise of quality medical practitioners and the dedication and compassion of skilled employees. SunLink hospitals strive to earn the support of local communities by meeting their healthcare needs in an efficient manner. SunLink's objective is to be a quality provider of healthcare services and the primary provider of such services in the communities it serves.

SunLink, through its subsidiaries, operates a total of six community hospitals in four states. We own five of the hospitals and we lease a sixth hospital. We also operate certain related businesses, consisting primarily of nursing homes located adjacent to, or in close proximity with, certain of our hospitals, and home health agencies servicing areas around certain of our hospitals. We believe our healthcare operations comprise a single business segment: community hospitals. Our hospitals are general acute care hospitals and have a total of 333 licensed beds. Our healthcare operations are conducted through our direct and indirect subsidiaries, including SunLink Healthcare Corp.

In fiscal 2001, we redirected our business strategy toward the operation of community hospitals in the United States. We acquired, for approximately \$26.5 million on February 1, 2001, the six community hospitals and related businesses which we currently operate. On October 5, 2001, we sold all of the capital stock of what was then our wholly-owned United Kingdom housewares subsidiary, Beldray Limited. Currently, we do not own any operating businesses outside the United States. In August 2001, we changed our name to SunLink Health Systems, Inc. from KRUG International Corp., and changed our fiscal year end from March 31 to June 30. We are an Ohio corporation and were incorporated in June 1959. Our website address is www.sunlinkhealth.com. Information contained on our website does not constitute part of this proxy statement/prospectus.

HealthMont, Inc.

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111 Long Valley Road

Brentwood, Tennessee 37027

Phone Number: 1 (615) 309-2166

HealthMont currently operates a total of two community hospitals, one in Georgia and another in Missouri. HealthMont owns each of its hospitals, as well as certain related businesses, consisting primarily of a nursing home located adjacent to one of its hospitals, and home health agencies servicing areas around each of its hospitals. HealthMont's hospitals are general acute care hospitals and have a total of 109 licensed beds.

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HealthMont is a Tennessee corporation, incorporated in February 2000, which commenced operations on September 1, 2000 following its acquisition of four hospitals. HealthMont acquired a fifth hospital in January

2001. As described below, HealthMont subsequently divested itself of two of its hospitals in February 2002 and, in connection with the merger, a third hospital in March 2003. HealthMont's website address is www.healthmont.com. Information contained on HealthMont's website does not constitute part of this proxy statement/prospectus.

The Merger

(See page 31)

Under the terms of the proposed merger, HealthMont will merge with and into HM Acquisition Corp., a wholly-owned subsidiary of SunLink formed solely for the purpose of effecting the acquisition of HealthMont. As a result, the separate corporate existence of HealthMont will cease and HM Acquisition Corp. will continue in existence as the surviving corporation and a wholly owned subsidiary of SunLink.

Except as described below, it is anticipated that HealthMont shareholders will be entitled to receive 0.1810 of a share of SunLink common stock in exchange for each share of HealthMont common stock they hold (one SunLink share for each 5.5249 HealthMont shares) based on 6,382,744 HealthMont shares expected to be outstanding at the close of the merger.

SunLink will not issue any fractional shares in the merger. In lieu of fractional shares, each HealthMont shareholder who would otherwise be entitled to a fraction of a SunLink common share will receive a cash payment for the value of the fraction of a share of SunLink common stock that he or she would otherwise receive. For purposes of determining the amount of cash paid in lieu of fractional shares, the value of a share of SunLink common stock will be the volume weighted daily average price of a share of SunLink common stock over the ten (10) trading-day period ending two (2) trading days prior to the date of the closing date of the merger. See *The Merger Agreement Consideration to be Received in the Merger* beginning on page 71.

SunLink shareholders will not receive any shares as a result of the merger. They will continue to hold the shares they currently own.

The merger agreement, as amended, is attached as **Annex A** to this joint proxy statement/prospectus. Because it is the legal document that governs the merger, you should read the merger agreement carefully. For a summary of the merger agreement, see *The Merger Agreement* beginning on page 71.

On March 24, 2003, SunLink, HealthMont, and various other persons entered into a series of transactions, including an amendment of the merger agreement, the divestiture by HealthMont of its Vinsant hospital, the entry by SunLink and HealthMont into a management agreement, the entry by SunLink and HealthMont into a loan agreement whereby SunLink agreed to lend HealthMont up to \$1.1 million dollars, the repayment by HealthMont of approximately \$600,000 of debt attributable to its former Vinsant hospital in connection with the disposition of such hospital, and the entry by SunLink into a \$700,000 note purchase agreement with Chatham Investment Fund I, LLC, a fund managed by Chatham Capital Partners, Inc., SunLink's financial advisor, to partially fund the SunLink loans to HealthMont. We refer to these transactions and the related transactions or agreements entered into in connection with the above-described transactions as the **March Transactions**. On July 30, 2003, SunLink, HealthMont, and various other persons entered into amendments to the transaction documents to extend the date before which the merger agreement cannot be terminated without cause through September 30, 2003; increase the SunLink loan commitment to HealthMont from \$1.1 million to \$1.6 million; extend the management agreement through September 30, 2003; and extend HealthMont's

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existing financing arrangements with its other lender through September 30, 2003. We refer to these transactions and the related transaction or agreements entered into in connection with the above transactions as the July Transactions. For a description of all of the events and material agreements entered into, see *The Merger Background of the Merger* beginning on page 31 and *The Other Merger Related Agreements* beginning on page 87.

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Unanimous Recommendation of the HealthMont Board of Directors

(See page 53)

On March 11, 2003, after careful consideration, the HealthMont board of directors unanimously determined the merger and the related transactions to be fair to HealthMont shareholders and in their best interests and approved the merger agreement, as amended, the merger contemplated thereby, and related transactions. The HealthMont Board recommends HealthMont shareholders vote **FOR** approval of the merger agreement, the merger contemplated thereby, and the related transactions.

Unanimous Recommendation of the SunLink Board of Directors

(See page 45)

On March 20, 2003, after careful consideration, the SunLink board of directors unanimously determined the merger to be fair to SunLink shareholders and in their best interests and approved the merger agreement as amended. The SunLink board of directors recommends that you vote **FOR** approval of the merger agreement.

Opinions of Financial Advisors

(See pages 48 and 56)

In connection with the merger, the SunLink board of directors received the opinion of Chatham Capital Partners, Inc. (formerly known as Cardinal Advisory, Inc.) (*Chatham Capital*), SunLink's financial advisors, and the HealthMont board of directors received the opinion of Caymus Partners LLC (formerly known as Harpeth Capital Atlanta, LLC) (*Caymus Partners*), HealthMont's financial advisors. The SunLink board of directors received the written opinion of Chatham Capital that as of March 20, 2003, the merger is fair from a financial point of view to SunLink. The HealthMont board of directors received a written opinion from Caymus Partners that, as of March 24, 2003, the exchange ratio of the merger is fair to the HealthMont shareholders from a financial point of view. Caymus Partners also provided the HealthMont board of directors with the written opinion that the divestiture of the Dolly Vinsant Memorial Hospital was fair to the HealthMont shareholders (other than HealthMont's Chief Executive Officer) from a financial point of view. The Chatham Capital opinion is attached as **Annex B**, and sets forth assumptions made, matters considered and limitations on the review undertaken in connection with the opinion. SunLink urges its shareholders to read the Chatham Capital opinion in its entirety. The Caymus Partners opinion is attached as **Annex C** and sets forth procedures followed, assumptions made, matters considered, and limitations on the review undertaken in connection with the opinion. HealthMont urges its shareholders to read the Caymus Partners opinion in its entirety. *The opinions are addressed to the board of directors of the respective companies and are not recommendations to shareholders with respect to any matter relating to the merger.*

Ownership of SunLink after the Merger

(See page 120)

SunLink will issue up to a total of approximately 1,347,000 shares of SunLink common stock to HealthMont shareholders in the merger and in connection with obligations assumed pursuant to the merger. The 1,347,000 shares of SunLink common stock consist of:

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1,130,565 SunLink shares to be issued in exchange for the outstanding capital stock of HealthMont (net of 24,435 SunLink shares which SunLink would not issue under the merger agreement in connection with the cancellation of a warrant it holds to purchase 135,000 shares of HealthMont common stock unless SunLink transfers such warrant prior to closing);

95,000 SunLink shares to be issued to settle certain contractual obligations of HealthMont to its officers and directors;

approximately 20,000 SunLink shares issuable upon the exercise of certain outstanding HealthMont options;

approximately 27,000 SunLink shares issuable upon the exercise of certain outstanding warrants of HealthMont, held by its senior lender, Heller Healthcare Finance, Inc. (Heller); and

75,000 SunLink shares issuable upon the exercise of warrants to be issued in connection with the HealthMont financing.

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The shares of SunLink common stock to be issued to HealthMont shareholders in the merger and in connection with obligations assumed pursuant to the merger would represent approximately 21.2% of the SunLink common stock expected to be outstanding immediately after the merger. This information is based on the number of SunLink and HealthMont shares outstanding on August 4, 2003.

Conditions to the Merger

(See page 78)

The merger depends upon the satisfaction or waiver of a number of conditions, including the following:

approval of the merger agreement and the merger (including the issuance of SunLink common stock, options, and warrants in the merger) by the holders of at least two-thirds of SunLink's common stock.

approval of the merger agreement and the merger by the holders of at least 75% of HealthMont's common stock;

receipt of regulatory approvals and the absence of legal restraints; and

receipt of an opinion of counsel to HealthMont, dated as of the date of the merger, to the effect that the merger will qualify as a tax-free reorganization within the meaning of Section 368(a) of the Internal Revenue Code and certain related matters.

Share Ownership of Management and Directors

On August 4, 2003, directors and executive officers of SunLink and their affiliates held and were entitled to vote 1,230,109 shares of SunLink common stock, or approximately 24.6% of the shares of SunLink common stock outstanding.

On August 4, 2003, directors and executive officers of HealthMont and their affiliates, held and were entitled to vote 1,536,087 shares of HealthMont common stock, or approximately 24.1% of the shares of HealthMont common stock outstanding.

Termination of the Merger Agreement

(See page 79)

The merger agreement may be terminated at any time before the closing in any of the following ways:

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by mutual written consent

by SunLink or HealthMont, if:

the merger is not completed by September 30, 2003 (the Termination Date), provided that neither SunLink nor HealthMont may terminate the merger agreement if the failure to complete the merger by that date is caused by the failure of the company seeking termination to fulfill its obligations under the merger agreement; or

any court of competent jurisdiction or governmental authority issues a final non-appealable order or injunction that prohibits the completion of the merger, and SunLink and HealthMont shall have used reasonable best efforts to prevent such order or injunction from being issued; or

the other party breaches, in any material respect, any of its representations, warranties or covenants contained in the merger agreement, which, unless cured within 30 days following written notice of breach from the non-breaching party, would result in conditions to the merger not being satisfied, unless such breach has been waived by the non-breaching party; or

approval of the merger agreement by the shareholders of either party shall not have been obtained; or

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if holders of more than 10% of the issued and outstanding shares of SunLink common stock shall have demanded or exercised or delivered to SunLink at any time before the effective time of the merger timely written notice of such holders intent to demand or exercise dissenter's rights with respect to the merger in accordance with the Ohio General Corporation Law.

by SunLink if:

SunLink pays the fee and expenses described below under *Termination Payments* and under *The Merger Agreement Termination Payments* on page 80; or

HealthMont breaches its obligations described under *The Merger Agreement Offers for Alternative Transactions* beginning on page 76; or

if at any time (a) trading or quotation in SunLink's securities shall have been suspended or limited by the SEC or by the American Stock Exchange, or trading in securities generally on the American Stock Exchange, the Nasdaq Stock Market or the New York Stock Exchange shall have been suspended or limited, or minimum or maximum prices shall have been generally established on any of such exchanges by the SEC or the NASD; (b) a general banking moratorium shall have been declared by any federal or state authorities; or (c) HealthMont or any of its subsidiaries shall have sustained an uninsured loss by strike, fire, flood, earthquake, accident or other calamity of such character as in the judgment of the SunLink may impair the value of the HealthMont and its subsidiaries or may interfere materially with the conduct of the business and operations of HealthMont or such subsidiary.

by HealthMont if:

HealthMont receives an offer to engage in a merger, consolidation or similar transaction or to purchase all or substantially all of HealthMont's shares or assets which satisfies the conditions described under *The Merger Agreement Offers for Alternative Transactions* and SunLink and HealthMont are unable to negotiate adjusted terms for the merger within ten business days after the receipt of such offer which would enable HealthMont to proceed with the merger; and

HealthMont pays the fees and expenses described below under *Termination Payments* and under *The Merger Agreement Termination Payments* beginning on page 80.

Termination Payments

(See page 80)

Termination Fees and Expenses Payable

If the merger agreement is terminated due to a knowing or willful breach of its terms, the breaching party is required to pay the non-breaching party a termination fee of \$500,000 and reimburse the non-breaching party for expenses incurred in connection with the merger up to a limit of reimbursable expenses of \$75,000 payable to SunLink and \$50,000 payable to HealthMont. Additionally, if HealthMont enters into an agreement regarding a merger, consolidation or similar transaction involving HealthMont or the purchase or sale of all or substantially all of its shares or assets within six months following the termination of the merger agreement by SunLink as provided above, HealthMont is required to pay an additional \$500,000 to SunLink.

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If the merger agreement is terminated due to the failure by the breaching party to obtain its shareholders' approval, the breaching party is required to pay the non-breaching party a termination fee of \$500,000 and reimburse the non-breaching party for expenses incurred in connection with the merger up to a limit of reimbursable expenses of \$75,000 payable to SunLink and \$50,000 payable to HealthMont.

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If the merger agreement is terminated due to a non-willful breach of the representations, warranties or covenants which results in a termination right as described above, remedies under the merger agreement generally are more limited. If SunLink is the terminating party, HealthMont is only required to reimburse SunLink for SunLink's expenses up to \$75,000 and if HealthMont is the terminating party SunLink is only required to reimburse HealthMont for HealthMont's expenses up to \$50,000.

If HealthMont terminates the merger agreement in connection with a merger, consolidation, or similar transaction or a purchase of all or substantially all of the shares or assets of HealthMont as described under *The Merger Agreement Offers for Alternative Transactions*, HealthMont is required to pay SunLink an initial termination fee of \$500,000, and SunLink's expenses up to \$75,000. If an alternative transaction is completed HealthMont is required to pay SunLink an additional \$500,000.

SunLink may terminate the merger agreement at any time if it pays HealthMont a termination fee of \$500,000 and HealthMont's expenses up to \$50,000.

If HealthMont receives an acquisition proposal that it determines to be a superior proposal under the merger agreement, it must pay to SunLink, within three business days of such determination, all of SunLink's expenses, not to exceed \$1,000,000. This obligation is in addition to those obligations of HealthMont described above.

United States Federal Income Tax Consequences of the Merger

(See page 62)

The United States federal income tax consequences described below assume that the merger will qualify as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code. The consummation of the merger is conditioned on, among other things, the receipt by SunLink and HealthMont of a tax opinion from HealthMont's counsel, dated as of the date of the merger, confirming such counsel's earlier opinion that the merger will so qualify.

In general, HealthMont shareholders will not recognize gain or loss with respect to their receipt of SunLink common stock in the merger, except for gain or loss attributable to any cash received in lieu of fractional shares of SunLink common stock. HealthMont shareholders who exercise statutory dissenter's rights in connection with the merger generally will recognize capital gain or loss (assuming the HealthMont common stock is held as a capital asset) equal to the difference, if any, between such holder's tax basis in the HealthMont common stock exchanged and the amount of cash received in exchange therefor.

Tax matters are very complicated and the tax consequences of the merger to each HealthMont shareholder will depend on the shareholder's particular facts and circumstances. HealthMont shareholders are urged to consult their own tax advisors about their personal tax situation to understand fully the tax consequences to them of the merger.

Listing of SunLink Common Stock

The shares of SunLink common stock to be issued in the merger will be listed on the American Stock Exchange under the ticker symbol SSY.

Dissenters' Rights

(See page 81)

If you are a HealthMont shareholder, Tennessee law permits you to dissent from the merger. If you dissent, you have the right to receive payment of the fair value of your HealthMont common stock. To do this, you must follow certain procedures, including giving HealthMont certain notices and not voting your shares in favor of the merger. The relevant sections of Tennessee Business Corporation Act governing this process are attached

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to this joint proxy statement/prospectus as **Annex D**. The fair value of your HealthMont common stock as determined in accordance with the Tennessee Business Corporation Act may be more or less than the merger consideration.

If you are a SunLink shareholder, Ohio law permits you to dissent from the proposed transaction. If you dissent, you have the right to receive the fair cash value of your SunLink common stock. To do this, you must follow certain procedures, including giving SunLink certain notices and not voting your shares in favor of the merger. The relevant section of the Ohio Revised Code governing this process are attached to this joint proxy statement/prospectus as **Annex E**. The fair cash value of your SunLink common stock as determined in accordance with the Ohio General Corporation Law may be more or less than the merger consideration.

Interests of Certain Persons in the Merger

(See page 68)

When HealthMont and SunLink shareholders consider their respective board of directors' recommendation that they vote in favor of the approval and adoption of the merger agreement and the merger, they should be aware that a number of HealthMont executive officers and directors may have interests in the merger that may be different from, or in addition to, the interests of HealthMont shareholders generally.

Accounting Treatment of the Merger

(See page 62)

SunLink will account for the merger under the purchase method of accounting in accordance with Statement of Financial Accounting Standards No. 141, *Business Combinations*. Accordingly, SunLink will record the fair value of assets acquired less liabilities assumed (plus transaction costs) with any excess purchase price recorded as separately identifiable intangible assets or goodwill. Based on the initial purchase price allocation, there is no goodwill.

SunLink Selected Historical Financial Data

We are providing the following selected historical financial data to assist you in your analysis of the financial aspects of the merger. We derived the SunLink data as of and for each of the years ended March 31, 1998, 1999, 2000, and 2001, the three-month transition period ended June 30, 2001 and the year ended June 30, 2002 from the audited consolidated financial statements of SunLink. We derived the SunLink data as of and for the nine months ended March 31, 2002 and 2003 from SunLink's quarterly report on Form 10-Q for the quarterly period ended March 31, 2003. The SunLink financial information reflects the acquisitions and dispositions of certain businesses during the period April 1, 1997 through June 30, 2002, including the acquisition of SunLink's existing community hospital business. In connection with the acquisition of SunLink's current business, SunLink changed its fiscal year end from March 31 to June 30, beginning with the year ended June 30, 2002. As a result, the following summary presents selected historical financial data for SunLink for the years ended March 31, 1998, 1999, 2000, 2001, the three-month transition period ended June 30, 2001, the year ended June 30, 2002, and the nine months ended March 31, 2002 and 2003.

Table of Contents**SunLink Selected Historical Financial Data**

(All amounts in thousands, except per share amounts)

	As of and for the								
	Fiscal Years Ended March 31,				Three Month	Three Month			
					Period	Transition Period	Fiscal	Nine Month	Nine Month
					Ended	Ended	Year Ended	Interim Period Ended	Interim Period Ended
	1998	1999	2000	2001	June 30, 2000	June 30, 2001	June 30, 2002	March 31, 2002	March 31, 2003
					(unaudited)			(unaudited)	(unaudited)
Net revenues (a)	\$ 0	\$ 0	\$ 0	\$ 13,639	\$ 0	\$ 20,527	\$ 87,457	\$ 65,371	\$ 73,204
Loss from continuing operations	(822)	(3,674)	(937)	(881)	(219)	(319)	(98)	(216)	(194)
Net earnings (loss)	256	(8,633)	1,583	478	(218)	(4,316)	833	777	92
Earnings (loss) per share from continuing operations:									
Basic	(0.16)	(0.73)	(0.19)	(0.18)	\$ (0.04)	(0.06)	(0.02)	(0.04)	(0.04)
Diluted	(0.16)	(0.73)	(0.19)	(0.18)	\$ (0.04)	(0.06)	(0.02)	(0.04)	(0.04)
Net earnings (loss) per share:									
Basic	0.05	(1.71)	0.32	0.10	(0.04)	(0.87)	0.17	0.16	0.02
Diluted	0.05	(1.71)	0.32	0.10	(0.04)	(0.87)	0.17	0.16	0.02
Total assets	26,460	15,751	12,778	47,458	12,003	43,842	48,571	47,792	55,720
Long-term debt, including current maturities	4,595	3,236	0	19,916	0	20,406	24,221	23,860	25,171
Shareholders' equity	\$ 18,099	\$ 7,480	\$ 9,513	\$ 9,631	\$ 9,089	\$ 5,307	\$ 5,955	\$ 5,989	\$ 6,059

- (a) All of SunLink's net revenues relate to its sole business segment, U.S. community hospitals, whose operations commenced with SunLink acquisition of six hospitals on February 1, 2001. Net revenues for the periods presented represent only the revenues subsequent to the acquisition date. The operations of SunLink's other former business segments which were operated during the periods presented (the U.K. housewares, child safety products, and leisure marine segments and the U.S. life sciences and engineering segments) have been reported as discontinued operations, and, therefore, have been excluded in the selected financial data for continuing operations presented above.

HealthMont Selected Historical Financial Data

HealthMont was formed on February 15, 2000 and commenced operations on September 1, 2000 following its acquisition of the following four hospitals from New American Healthcare Corporation (NAHC): Memorial Hospital of Adel (Adel); Dolly Vinsant Memorial Hospital (Vinsant); Eastmoreland Hospital (Eastmoreland); and Woodland Park Hospital (Woodland) (such hospitals collectively are referred to as the Initial HealthMont Hospitals). On January 1, 2001, HealthMont acquired a fifth hospital, Callaway Community Hospital (Callaway), from a subsidiary of CHAMA, Inc. On February 28, 2002, HealthMont sold Eastmoreland and Woodland Park. On March 24, 2003, HealthMont sold Vinsant.

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Since the financial statements for HealthMont only include the Initial HealthMont Hospitals from September 1, 2000 and Callaway from January 1, 2001, the Initial HealthMont Hospitals and Callaway selected historical financial data presented includes net revenues, net revenues over direct operating expenses, and total assets information derived from the unaudited statements of revenue over direct operating expenses and unaudited balance sheet information as of and for the years ended March 31, 1998, 1999, 2000, and as of and for the five months ended August 31, 2000, for each of the Initial HealthMont Hospitals, and as of and for the years ended March 31, 1998, 1999, 2000, and as of and for the nine months ended December 31, 2000, for Callaway.

In addition, the HealthMont selected historical financial data presented is derived from the audited balance sheet information and audited statements of operations information as of and for the years ended March 31, 2001, 2002, and 2003. We derived the HealthMont data from the audited consolidated financial statements of HealthMont as of and for each of the years ended March 31, 2001, 2002, and 2003.

Table of Contents**Initial HealthMont Hospitals and Callaway Selected Historical Financial Data**

(All amounts in thousands)

(unaudited)

	As of and for the			
	Fiscal Years Ended March 31,			Nine Months
	1998	1999	2000	Ended December 31, 2000
Net revenues:				
Adel	\$ 17,026	\$ 17,422	\$ 17,151	\$ 6,637
Vinsant	9,172	8,845	8,769	2,926
Eastmoreland	16,257	16,510	16,899	6,978
Woodland	20,228	20,583	18,985	8,093
Callaway	11,135	10,973	11,172	\$ 7,198
Net revenues over (under) direct operating expenses:				
Adel	3,044	2,697	2,148	(278)
Vinsant	708	500	(321)	(671)
Eastmoreland	(248)	1,205	563	(170)
Woodland	(94)	1,167	(1,369)	(319)
Callaway	(116)	(533)	633	\$ (125)
Total assets:				
Adel	8,862	12,919	12,629	12,438