

SUNLINK HEALTH SYSTEMS INC
Form DEF 14A
October 15, 2003

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

SCHEDULE 14A

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

Filed by the Registrant

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Check the appropriate box:

Preliminary Proxy Statement

Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to Rule 14a-11(c) or Rule 14a-12

SunLink Health Systems, Inc.

(Name of Registrant as specified in Its Charter)

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

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(4) Date Filed:

SUNLINK HEALTH SYSTEMS, INC.

900 Circle 75 Parkway, Suite 1300

Atlanta, Georgia 30339

October 15, 2003

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 10, 2003, at the Sheraton Suites Galleria, 2844 Cobb Parkway S.W., Atlanta, Georgia 30339.

The accompanying Notice of the Annual Meeting and Proxy Statement contain detailed information concerning the matters to be considered and acted upon at the Meeting. The Company's 2003 Annual Report to Shareholders is also enclosed.

We hope you will be able to attend the meeting.

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

Sincerely,

ROBERT M. THORNTON, JR.

President and Chief Executive Officer

SUNLINK HEALTH SYSTEMS, INC.

900 Circle 75 Parkway, Suite 1300

Atlanta, Georgia 30339

NOTICE OF 2003 ANNUAL MEETING OF SHAREHOLDERS

TO BE HELD ON NOVEMBER 10, 2003

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 10, 2003, at the Sheraton Suites Galleria, 2844 Cobb Parkway S.W., Atlanta, Georgia 30339, for the purpose of considering and voting upon:

1. The election of four directors for a two-year term.
2. Such other business as may properly come before the meeting or any adjournment thereof.

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

By order of the Board of Directors of

SunLink Health Systems, Inc.

JAMES J. MULLIGAN

Secretary

October 15, 2003

SUNLINK HEALTH SYSTEMS, INC.

900 Circle 75 Parkway, Suite 1300

Atlanta, Georgia 30339

PROXY STATEMENT

FOR 2003 ANNUAL MEETING OF SHAREHOLDERS

This proxy statement is furnished in connection with the solicitation by the Board of Directors of SUNLINK HEALTH SYSTEMS, INC., an Ohio corporation (the Company), of proxies to be used at the Annual Meeting of Shareholders to be held on Monday, November 10, 2003 and any adjournment thereof. The close of business on October 7, 2003 has been fixed as the record date for the determination of the holders of common shares entitled to vote at the meeting and each such shareholder is entitled to one vote per share. There were 6,281,407 common shares outstanding at the close of business on October 7, 2003.

All shares represented by properly executed proxies received by the Board of Directors pursuant to this solicitation will be voted in accordance with the shareholder's directions specified on the proxy. If no directions have been specified by marking the appropriate places on the accompanying proxy card, the shares will be voted in accordance with the Board's recommendations which are FOR the election of Robert M. Thornton, Jr., Dr. Steven J. Baileys, Michael W. Hall and Gene E. Burlison, as directors of the Company for a two-year term. A shareholder signing and returning the accompanying proxy has power to revoke it at any time prior to its exercise by delivering to the Company a later dated proxy or by giving notice to the Company in writing or in open meeting but without affecting any vote previously taken.

The presence, in person or by properly executed proxy, of the holders of a majority of the Company's outstanding shares is necessary to constitute a quorum at the Annual Meeting. Shares represented by proxies received by the Company will be counted as present at the Annual Meeting for the purpose of determining the existence of a quorum, regardless of how or whether such shares are voted on a specific proposal. Abstentions will be treated as votes cast on a particular matter as well as shares present at the Annual Meeting. Where nominee shareholders do not vote on specific issues because they did not receive specific instructions on such issues from the beneficial owners of such shares (Broker Nonvotes), such Broker Nonvotes will not be treated as either votes cast or shares present.

This proxy statement and the accompanying proxy card were first mailed to shareholders on or about October 15, 2003.

ELECTION OF DIRECTORS

The Company's Board of Directors is presently comprised of eight members. Prior to May 2001, the Board was divided into two classes, with one class having three members and the other class having four members. In May 2001, the Board increased the number of directors from seven to eight, with four members in each class. In September 2003, the board decreased the number of directors from eight to seven, effective as of the date of the Annual Meeting, as a result of the retirement of James J. Mulligan, with one class having three members and the other class having four members. Mr. Mulligan will continue as a Director Emeritus and Secretary but will not be a voting board member. One class of Directors is normally elected at each Annual Meeting of Shareholders for a term of two years.

At the 2003 Annual Meeting, shareholders will elect four directors who will hold office until the Annual Meeting of Shareholders in 2005. The Board of Directors has nominated Robert M. Thornton, Jr., Dr. Steven J. Baileys, Michael W. Hall and Gene E. Burleson, who are presently directors of the Company, for election to two year terms of office expiring at the 2005 Annual Meeting. Gene E. Burleson was appointed a director of the Company on October 3, 2003 following the Company's acquisition of HealthMont, Inc. Mr. Burleson was a former director of HealthMont, Inc.

It is the intention of the proxy agents named in the proxy, unless otherwise directed, to vote such proxy for the election of Robert M. Thornton, Jr., Dr. Steven J. Baileys, Michael W. Hall and Gene E. Burleson. Should any of them 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 four nominees receiving the highest number of votes cast will be elected 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.

Name and Offices Presently Held with Company	Director	Common Shares Beneficially Owned as of October 7, 2003 (1)	
	Since	Number	% of Class
Nominees for Term of Office Expiring in 2005:			
Robert M. Thornton, Jr. Director, Chairman, President, and Chief Executive Officer	1996	406,724(2)	6.3
Dr. Steven J. Baileys Director	2000	672,698(6)	10.5
Michael W. Hall Director	2001	15,600(7)	*
Gene E. Burleson Director	2003	84,438(8)	1.3
Directors Whose Term of Office Expires in 2004:			
Karen B. Brenner Director	1996	309,646(3)	4.7
C. Michael Ford Director	1999	42,500(4)	*

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Howard E. Turner Director	1999	219,707(5)	3.5
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Directors Whose Term of Office Expires in 2003 and will not seek Re-election:

James J. Mulligan Director Emeritus and Secretary	1966	39,585(9)	*
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* Represents less than 1% of the outstanding common shares.

- (1) These columns show the number of common shares beneficially owned as of October 7, 2003, as confirmed by each beneficial owner and the percentage of class represented thereby, and includes, where applicable, shares owned by members of the individual's household. Unless otherwise indicated, each individual has voting power and investment power which are exercisable solely by such individual or are shared by such individual with members of his or her household. In calculating % of Class for an entity, shares which may be acquired by the entity within a 60-day period are treated as owned by the entity and as outstanding shares.
- (2) Includes 37,540 shares that may be acquired upon the exercise of warrants and 132,000 shares that may be acquired under options exercisable within 60 days of October 7, 2003.
- (3) Includes 302,146 shares (which includes 259,160 shares which may be acquired upon the exercise of warrants) over which Ms. Brenner, as a registered investment advisor and sole shareholder of Fortuna Asset Management, LLC, has shared investment power. The total also includes 7,500 shares that may be acquired under options exercisable within 60 days of October 7, 2003.
- (4) Includes 7,500 shares that may be acquired under options exercisable within 60 days of October 7, 2003.
- (5) Includes 12,685 shares that may be acquired upon the exercise of warrants and 7,500 shares that may be acquired under options exercisable within 60 days of October 7, 2003.
- (6) Includes 378,649 shares held by Beilhis Investments, LLC, in which Dr. Baileys serves as managing member of the company. Includes 102,982 shares which may be acquired upon the exercise of warrants. Includes 7,500 shares that may be acquired under options exercisable within 60 days of October 7, 2003.
- (7) Includes 7,500 shares that may be acquired under options exercisable within 60 days of October 7, 2003.
- (8) Includes 17,195 shares that may be acquired under options exercisable within 60 days of October 7, 2003.
- (9) Includes 5,380 shares that may be acquired upon exercise of warrants and 7,500 shares that may be acquired under options exercisable within 60 days of October 7, 2003.

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

Robert M. Thornton, Jr., 54, has been Chairman and Chief Executive Officer of the Company since September 10, 1998, President since July 16, 1996 and was the Chief Financial Officer from July 18, 1997 through August 31, 2002. From October 1994 to the present, Mr. Thornton has been a private investor and, since March 1995, Chairman and Chief Executive Officer of CareVest Capital, LLC, a private investment and management services firm. Mr. Thornton was President, Chief Operating Officer, Chief Financial Officer and a director of Hallmark Healthcare Corporation (Hallmark) from November 1993 until Hallmark's merger with Community Health Systems, Inc. in October 1994. From October 1987 until November 1993, Mr. Thornton was Executive Vice President, Chief Financial Officer, Secretary, Treasurer and a director of Hallmark.

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Dr. Steven J. Baileys, 49, has been Chairman of the Board of Directors of SafeGuard Health Enterprises, Inc., a public dental care benefits company, since 1995, Chief Executive Officer from 1995 to February 2000, President from 1981 until 1997 and Chief Operating Officer from 1981 until 1995. Dr. Baileys is licensed to practice dentistry in the State of California.

Michael W. Hall, 54, is a private investor and was Chairman and Chief Executive Officer of Pyramed Health System, Inc., a healthcare consulting firm, from August 1996 through March 31, 2001. From April 1991 to August 1996, Mr. Hall was Chief Operating Officer and Executive Vice President of Southern Health Management Corporation, a healthcare management company specializing in rural healthcare. Prior to its sale to NetCare Health Systems, Inc., Southern Health Management Corporation owned four of the six hospitals SunLink's healthcare subsidiary, SunLink Healthcare Corp., purchased from NetCare in February 2001.

Gene E. Burleson, 62, served as a director of HealthMont Inc. from its inception in September 2000 until its merger with SunLink in October 2003. Mr. Burleson served as the Chairman of the Board of Directors of Mariner Post-Acute Network, Inc., a diversified provider of long-term and specialty health care services, from February 2000 to June 2002. Mr. Burleson served as the Chief Executive Officer and as a director of Vitalink Pharmacy Services, Inc. from February 1997 to August 1997. He served as Chairman of the Board of Directors of GranCare, Inc., a provider of long-term and specialty health care services, which subsequently became a part of Mariner Post-Acute Network, Inc., from January 1994 to November 1997, and as its Chief Executive Officer from December 1990 to February 1997. His previous experience also includes serving as the President and Chief Operating Officer of American Medical International, Inc., an acute care hospital company and a predecessor to Tenet Healthcare Corporation. Mr. Burleson also currently serves on the Board of Directors of Alterra Healthcare Corporation, an operator of assisted living facilities, Deckers Outdoor Corporation, a shoe manufacturer and various other privately-held companies.

Karen B. Brenner, 51, has been President of Fortuna Asset Management, LLC, an investment advisory firm located in Newport Beach California, since 2000. Fortuna Asset Management, LLC succeeded to the business of Fortuna Advisors, Inc., which Ms. Brenner formed and operated from 1993 to 2000. Ms. Brenner is also a director of Creative Bakeries, Inc.

C. Michael Ford, 64, has been the owner and Chairman of the Board of Directors of Montpelier Corporation, a venture capital and real estate holding company, since October 1990. Mr. Ford has served as Chief Executive Officer and Chief Financial Officer of Newtown Macon, Inc. since October 2002. Mr. Ford was Chairman of the Board of In Home Health, Inc. from February 2000 to December 2000, and the Interim Chief Executive Officer from February 2000 to December 2000, except for the period June 27 through July 7, 2000. Mr. Ford served as Vice President of Development of Columbia/HCA Healthcare Corporation from September 1994 to September 1997, and was Vice President of Marketing of Meditrust Corp. from October 1993 to September 1994.

Howard E. Turner, 61, has been a partner in the law firm of Smith, Gambrell & Russell, LLP, since 1971, where he is a member of the firm's executive committee. Mr. Turner has served as a director of Avlease, Ltd., a lessor of large commercial aircraft, and currently serves as an officer and director of Historic Motorsports Holdings, Ltd. Mr. Turner provides legal services to the Company through the law firm, Smith, Gambrell & Russell, LLP, as requested by the Company. Smith, Gambrell & Russell, LLP received \$657,302 for legal services rendered during the Company's fiscal year ended June 30, 2003.

James J. Mulligan, 81, became Secretary of the Corporation in 1966. Mr. Mulligan has practiced law since 1949. He has been practicing as a member of Mulligan & Mulligan since January 2003. Prior thereto, he was a member of the law firm of Smith & Schnacke from 1953 to 1991, a member of the firm of Thompson Hine & Flory from 1989 to 1991, a member of the firm of Mulligan & Mulligan from 1992 to 2000 and a sole practitioner during 2001 and 2002. Mr. Mulligan is general counsel to the Company and received \$ 23,923 for legal services rendered during the Company's fiscal year ended June 30, 2003.

INFORMATION CONCERNING THE BOARD OF DIRECTORS

The Board of Directors held 8 meetings and took action once by unanimous written consent during fiscal 2003. The Board has an Executive Committee, an Audit Committee and an Executive Compensation Committee. The Board does not have a Nominating Committee. The Audit Committee held 4 meetings, the Executive Committee held no meetings and the Executive Compensation Committee held 3 meetings in fiscal 2003.

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. The members of the Committee are Messrs. Thornton (Chairman) and Turner and Ms. Brenner.

The Audit Committee meets with Company personnel and representatives of the Company's independent public accountants to review internal accounting controls, internal auditing procedures and matters relating to the annual audit of the Company's financial statements. The Committee reports its findings and recommendations to the Board of Directors. The Committee previously adopted a written charter for the Audit Committee. The members of the Committee are Messrs. Ford (Chairman) and Turner and Ms. Brenner. All three members of the committee are independent as defined in Section 121(A) of the American Stock Exchange's listing standards.

The Executive Compensation Committee acts in an advisory capacity to the Board of Directors with respect to the compensation of the Company's executives. The members of the Committee are Ms. Brenner (Chairperson), Dr. Steven J. Baileys and Mr. Mulligan.

Each non-employee director receives a monthly fee of \$1,000 for services as a director. In addition, he or she receives \$1,000 for attendance at a meeting of the Board of Directors, \$500 for attending an Executive Committee, Executive Compensation Committee or Audit Committee meeting, \$500 for participating in telephone meetings and a monthly fee of \$500 if he or she serves on the Audit Committee.

EXECUTIVE OFFICERS OF THE REGISTRANT

Our executive officers, as of October 7, 2003, their positions with the Company or its subsidiaries and their ages are as follows:

<u>Name</u>	<u>Office</u>	<u>Age</u>
Robert M. Thornton, Jr.	Director, Chairman of the Board of Directors, President and Chief Executive Officer	54
James J. Mulligan	Director and Secretary	81
Joseph T. Morris	Chief Financial Officer	55
Harry R. Alvis	Chief Operating Officer	58
Jerome D. Orth	Vice President, Technical and Compliance Services	55
Mark J. Stockslager	Corporate Controller and Principal Accounting Officer	44

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

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

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Harry R. Alvis has been Senior Vice President of Operations of SunLink Healthcare Corp. since February 1, 2001 and Chief Operating Officer of SunLink Health Systems, Inc. since September 1, 2002. Mr. Alvis provided turn-around operational consulting services for New American Healthcare Corp. from March 2000 through January 2001. From August 1997 through August 1999, Mr. Alvis was Chief Executive Officer of River Region Health Systems in Vicksburg, Mississippi, a healthcare facility owned by Quorum Health Group, Inc. From August 1995

through August 1997, Mr. Alvis was the Chief Executive Officer of Greenview Hospital in Bowling Green, Kentucky, a healthcare facility owned by Hospital Corporation of America. Mr. Alvis' previous assignment was in Mayfield, Kentucky as the Chief Executive Officer at Pinelake Medical Center from November 1987 through August 1995, which was a healthcare facility, owned during such time by HealthTrust, Inc. and later acquired by Columbia Healthcare, Inc.

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

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

PRINCIPAL HOLDERS OF COMMON SHARES

Set forth below is certain information concerning the persons or entities known by the Board of Directors of the Company to be the beneficial owners of more than 5% of the outstanding Common Shares of the Company as of October 7, 2003.

<u>Name and Address</u>	<u>Common Shares Beneficially Owned</u>	
	<u>As of October 7, 2003 (1)</u>	
	<u>Shares</u>	<u>% of Class</u>
STEVEN J. BAILEYS (3) 30691 Hunt Club Drive San Juan Capistrano, CA 92675	672,698(2)	10.5
BEILIHIS INVESTMENTS, LLC (3) 30691 Hunt Club Drive San Juan Capistrano, CA 92675	378,649(4)	5.9
ROBERT M. THORNTON, JR. C/O SunLink Health Systems, Inc. 900 Circle 75 Parkway, Suite 1300 Atlanta, GA 30339	406,724(5)	6.3

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- (1) Under applicable Securities and Exchange Commission regulations, shares are treated as beneficially owned if a person has or shares voting or investment power with respect to the shares or has a right to acquire the shares within 60 days of October 7, 2003. Unless otherwise indicated, sole voting power and sole investment power are exercised by the named entity. In calculating % of Class for an entity, shares which may be acquired by the entity within such 60-day period are treated as owned by the entity and as outstanding shares.
- (2) Includes 378,649 shares held by Beilihis Investments, LLC, where Dr. Baileys is managing member of the company. Includes 102,982 shares which may be acquired upon the exercise of warrants and includes 7,500 shares that may be acquired under options exercisable within 60 days of October 7, 2003.
- (3) Beilihis Investments, LLC is a private investor. Steven J. Baileys is the managing member of the company.
- (4) Includes 52,041 shares that may be acquired upon exercise of warrants within 60 days of October 7, 2003.
- (5) Includes 37,540 shares that may be acquired upon the exercise of warrants and 132,000 shares that may be acquired under options exercisable within 60 days of October 7, 2003.

COMMON SHARES OWNED BY MANAGEMENT

The following table sets forth the number of Common Shares of the Company beneficially owned as of October 7, 2003 by each named executive officer listed in the Summary Compensation Table and by all directors, nominees and executive officers of the Company as a group.

<u>Name</u>	<u>Common Shares Beneficially Owned as of October 7, 2003</u>	
	<u>Number</u>	<u>% of Class</u>
Robert M. Thornton, Jr. Chairman, President and Chief Executive Officer	406,724(1)	6.3
Joseph T. Morris Chief Financial Officer	94,900(3)	1.5
Harry R. Alvis Chief Operating Officer	53,250(4)	*
Jerome D. Orth Vice President Technical and Compliance Services	23,250(5)	*
Mark J. Stockslager Corporate Controller	73,014(2)	1.2
Directors, Nominees and Executive Officers as a Group (12 persons)	2,035,312(6)	28.8

(1) Includes 37,540 shares that may be acquired upon the exercise of warrants and 132,000 shares that may be acquired under options exercisable within 60 days of October 7, 2003.

(2) Includes 64,750 shares that may be acquired under options exercisable within 60 days of October 7, 2003.

(3) Includes 47,750 shares that may be acquired under options exercisable within 60 days of October 7, 2003.

(4) Includes 39,250 shares that may be acquired under options exercisable within 60 days of October 7, 2003.

(5) Includes 20,250 shares that may be acquired under options exercisable within 60 days of October 7, 2003.

(6) Includes 265,970 shares that may be acquired upon the exercise of warrants and 366,195 shares that may be acquired under options exercisable within 60 days of October 7, 2003.

EXECUTIVE COMPENSATION

The following sections of this Proxy Statement set forth compensation information relating to the Chief Executive Officer and the four most highly compensated executive officers of the Company, other than the Chief Executive Officer (the Named Executive Officers), for fiscal year June 30, 2003.

SUMMARY COMPENSATION TABLE

The following table shows the compensation awarded or paid by SunLink for services rendered for the fiscal years ended March 31, 2001, the three-month transition period ended June 30, 2001 (the Stub Period), and the fiscal years ended June 30, 2002 and 2003 to the Chief Executive Officer and the Named Executive Officers.

Name and Principal Position	Year	Annual Compensation		Long-Term Compensation			
		Salary (\$)	Bonus (\$)	Restricted Stock Award (\$)	Securities Underlying Options (#)	Incentive Plan Payout (\$)	All Other Compensation (\$)(6)
Robert M. Thornton, Jr. Chairman, President and Chief Executive Officer(1)	2003	\$276,667	\$155,210	\$0	0	\$0	\$4,161
	2002	250,000	150,000	0	0	0	4,063
	2001 Stub Period	62,500	25,078	0	0	0	1,458
	2001	220,000	60,000	0	232,000	0	0
Joseph T. Morris Chief Financial Officer(2)	2003	\$228,665	\$128,282	\$0	7,000	\$0	\$3,890
	2002	200,000	120,000	0	0	0	7,496
	2001 Stub Period	50,000	19,858	0	0	0	0
	2001	33,333	0	0	110,000	0	0
Harry R. Alvis Chief Operating Officer(3)	2003	\$202,133	\$ 94,497	\$0	7,000	\$0	\$4,985
	2002	180,000	90,000	0	0	0	7,064
	2001 Stub Period	45,000	15,457	0	0	0	0
	2001	30,000	0	0	75,000	0	0
Jerome D. Orth Vice President, Technical and Compliance Services(4)	2003	\$138,033	\$ 48,036	\$0	1,000	\$0	\$2,579
	2002 Stub Period	132,167	51,035	0	0	0	5,981
	2001	32,500	10,193	0	0	0	0
	2001	21,667	0	0	40,000	0	0
Mark J. Stockslager Corporate Controller and Principal Accounting Officer(5)	2003	\$ 92,233	\$ 32,097	\$0	1,000	\$0	\$3,090
	2002	88,880	31,944	0	0	0	2,369
	2001 Stub Period	22,000	6,032	0	0	0	1,100
	2001	82,000	20,000	0	53,000	0	0

(1) Mr. Thornton was elected Chairman and Chief Executive Officer on September 10, 1998.

(2) Mr. Morris was elected Chief Financial Officer on August 25, 2002 (effective September 1, 2002).

(3) Mr. Alvis was elected Chief Operating Officer on August 25, 2002 (effective September 1, 2002).

(4) Mr. Orth was elected Vice President, Technical and Compliance Services on February 1, 2001.

(5) Mr. Stockslager was elected Corporate Controller in October 1996 and Principal Accounting Officer in March 1998.

(6) All other compensation consists of 401k contributions made by the Company.

OPTION GRANTS IN LAST FISCAL YEAR

The Company granted the following options to the Named Executive Officers during the fiscal year ended June 30, 2003:

Name	Individual Grants			Expiration Date	Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term	
	Number of Shares Underlying Options Granted (#)	% of Total Options Granted to Employees in Fiscal Year	Exercise or Base Price (\$/Share)		5% (\$)	10% (\$)
Joseph T. Morris	7,000	11.7%	3.00	8/24/2011(a)	9,324	22,165
Harry R. Alvis	7,000	11.7%	3.00	8/24/2011(a)	9,324	22,165
Jerome D. Orth	1,000	1.7%	3.00	8/24/2011(a)	1,332	3,166
Mark J. Stockslager	1,000	1.7%	3.00	8/24/2011(a)	1,332	3,166

(a) 25% of granted options may be exercised from August 25, 2003 to August 24, 2008

25% of granted options may be exercised from August 25, 2004 to August 24, 2009

25% of granted options may be exercised from August 25, 2005 to August 24, 2010

25% of granted options may be exercised from August 25, 2006 to August 24, 2011

AGGREGATED OPTION EXERCISES IN LAST FISCAL YEAR

AND FISCAL YEAR-END OPTION VALUES

The following table shows information about stock option exercises during fiscal 2003 and unexercised stock options at June 30, 2003 for the named executive officers.

Name	Shares Acquired on Exercise (#)	Value Realized (\$)	Number of Shares Underlying Unexercised Options At Fiscal Year-End Exercisable/ Unexercisable (#)	Value of Unexercised In-The-Money Options At Fiscal Year-End Exercisable/ Unexercisable (\$)
Robert M. Thornton, Jr.	20,000	13,850	136,000/96,000	127,760/91,360
Joseph T. Morris	10,000	7,700	56,000/51,000	50,960/40,040
Harry R. Alvis	0	0	37,500/44,500	34,125/34,125
Jerome D. Orth	0	0	20,000/21,000	18,200/18,200

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Mark J. Stockslager	0	0	62,500/27,500	46,790/25,115
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