UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington D.C. 20549

FORM 10-Q/A

(Amendment No. 1)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended December 31, 2008

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to

Commission File Number 1-12607

SUNLINK HEALTH SYSTEMS, INC.

(Exact name of registrant as specified in its charter)

Ohio	**31-0621189**
(State or other jurisdiction of	**(I.R.S. Employer**
incorporation or organization)	**Identification No.)**

900 Circle 75 Parkway, Suite 1120, Atlanta, Georgia 30339

(Address of principal executive offices)

(Zip Code)

(770) 933-7000

(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filings requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ¨ No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer, or a smaller reporting company. See definition of large accelerated filer , accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer ¨	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company x

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

The number of Common Shares, without par value, outstanding as of February 13, 2009 was 7,998,432.

Amendment No. 1 Overview

SunLink Health Systems, Inc. (SunLink) is filing this Amendment No. 1 of Form 10-Q/A to our Form 10-Q for the three and six month periods ended December 31, 2008 to reflect the restatement of our previously issued condensed consolidated financial statements and other information to correct the impact of non-cash accounting errors at its Carmichael s Cashway Pharmacy, Inc. subsidiary (Carmichael). For further discussion of the restatement, see Note 1. to our condensed consolidated financial statements and Item 4 contained herein.

In May 2009, Carmichael s then Chief Financial Officer (CFO) resigned. In June 2009, Carmichael hired a new CFO and in July 2009, the new Carmichael CFO and SunLink s CFO began an investigation into unresolved accounting discrepancies between Carmichael s accounts receivable detail and its general ledger. When the new Carmichael CFO was unable to resolve the discrepancies, SunLink, in July 2009, engaged an outside accountant (the **Investigation Accountant**) to investigate the discrepancies. After being informed of the preliminary results of the Investigation Accountant s investigation, the Company informed the Audit Committee of SunLink s Board of Directors (the **Audit Committee**) of the preliminary findings by such Investigation Accountant. Based on such preliminary findings, on August 28, 2009 SunLink concluded that the impact of the Carmichael level accounting irregularities made it likely that SunLink s financial statements for the first, second and third fiscal quarters ended September 30, 2008, December 31, 2008 and March 31, 2009, respectively, should not be relied on.

As we previously disclosed in our Form 8-K filed on August 28, 2009, SunLink reached its conclusion on August 28, 2009, based on information reviewed by SunLink s management and SunLink s Audit Committee and SunLink s independent registered public accounting firm (the **Public Accountants**), including information provided by the Investigation Accountant. SunLink concluded that Carmichael s financial statements, among other things, had misstated the Subsidiary s accounts receivable during the referenced periods due to accounting calculation errors and improper period-end cut-off of certain accounts receivable systems and, as a result thereof, the SunLink financial statements for the quarters ended September 30, 2008, December 31, 2008 and March 31, 2009 contained errors in the amount of accounts receivable, net income (loss), revenues, provision for bad debts, allowance for doubtful accounts and contractual allowances. The Public Accountants concur with SunLink s conclusion with respect to the restatement of the condensed consolidated financial statements for the quarter ended September 30, 2008, December 31, 2008 and March 31, 2009.

The information contained in this Amendment, including the condensed consolidated financial statements and the notes hereto, amends Items 1 and 2 of Part I and Item 4T of Part II of the originally filed Quarterly Report on Form 10-Q for the three and six month periods ended December 31, 2008 and no other items in our originally filed Form 10-Q are hereby amended. This Form 10-Q/A does not materially modify or update other disclosures in the original Form 10-Q, including the nature and character of such disclosure to reflect events occurring after February 13, 2009, the filing date of the original Form 10-Q. Accordingly, this Form 10-Q/A should be read in conjunction with our filings made with the Securities and Exchange Commission. In addition, currently dated certifications from our Chief Executive Officer and Chief Financial Officer have been included as exhibits to this amendment.

The following table sets forth the effects of the restatement on certain line items within our previously reported condensed consolidated financial statements (in thousands, except per share data):

(in thousands, except per share amounts)

Condensed Consolidated Statements of Earnings

	Three Months Ended	
	December 31, 2008 Restated	**December 31, 2008 Previously Reported**
Net Revenues	$ 49,758	$ 50,129
Provision for bad debts	5,987	5,503
Operating Profit	837	1,692
Earnings (Loss) from continuing operations before income taxes	(245)	610
Earnings (Loss) from continuing operations	(161)	366
Net Earnings (Loss)	(264)	263
Earnings (Loss) per Share		
Continuing Operations:		
Basic	(0.02)	0.05
Diluted	(0.02)	0.05
Net Earnings (Loss):		
Basic	(0.03)	0.03
Diluted	$ (0.03)	$ 0.03

	Six Months Ended	
	December 31, 2008 Restated	**December 31, 2008 Previously Reported**
Net Revenues	$ 96,436	$ 96,867
Provision for bad debts	11,732	11,122
Operating Profit	915	1,956
Loss from continuing operations before income taxes	(1,414)	(373)
Loss from continuing operations	(764)	(122)
Net Loss	(928)	(286)
Loss per Share		
Continuing Operations:		
Basic	(0.10)	(0.02)
Diluted	(0.10)	(0.02)
Net Loss:		
Basic	(0.12)	(0.04)
Diluted	$ (0.12)	$ (0.04)

(in thousands, except per share amounts)

Condensed Consolidated Balance Sheets

	December 31, 2008 Restated	**December 31, 2008 Previously Reported**
Receivables - net	$ 20,728	$ 21,769
Prepaid expenses and other	3,854	3,455
Total assets	108,557	109,199
Retained earnings	$ 24,623	25,265

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

SUNLINK HEALTH SYSTEMS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands)

(unaudited)

	December 31, 2008 (Restated)	June 30, 2008
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 1,122	$ 1,716
Receivables - net	20,728	20,052
Inventory	4,838	4,711
Deferred income tax asset	4,800	5,449
Prepaid expenses and other	3,854	3,244
Total Current Assets	35,342	35,172
Property, Plant and Equipment, at cost	71,149	71,205
Less accumulated depreciation and amortization	22,519	19,985
Property, Plant and Equipment - net	48,630	51,220
Intangible assets - net	12,975	13,427
Goodwill	9,453	9,453
Other assets	2,157	2,352
Total Assets	$ 108,557	$ 111,624
LIABILITIES AND SHAREHOLDERS EQUITY		
Current Liabilities:		
Accounts payable	$ 9,385	$ 8,691
Revolving advances	5,500	3,900
Third-party payor settlements	955	1,664
Current maturities of long-term debt	1,846	1,844
Current maturities of subordinated long-term debt	300	150
Accrued payroll and related taxes	4,781	6,012
Income taxes		555
Current liabilities of Mountainside Medical Center	594	600
Other accrued expenses	3,960	3,653
Total Current Liabilities	27,321	27,069
Long-Term Liabilities:		
Long-term debt	31,784	33,118
Subordinated long-term debt	2,700	2,850
Noncurrent liability for professional liability risks	2,804	2,506
Noncurrent deferred income tax liabilities	1,971	3,132

Other noncurrent liabilities	1,458	2,090
Total Long-term Liabilities	40,717	43,696
Commitments and Contingencies		
Minority interest	615	615
Shareholders Equity:		
Preferred shares, authorized and unissued, 2,000 shares		
Common shares, without par value:		
Issued and outstanding, 7,998 shares at December 31, 2008 and 7,932 shares at June 30, 2008	3,999	3,966
Additional paid-in capital	11,532	11,310
Retained earnings	24,623	25,551
Accumulated other comprehensive loss	(250)	(583)
Total Shareholders Equity	39,904	40,244
Total Liabilities and Shareholders Equity	$ 108,557	$ 111,624

See notes to condensed consolidated financial statements.

SUNLINK HEALTH SYSTEMS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS

(in thousands, except per share amounts)

(unaudited)

	THREE MONTHS ENDED DECEMBER 31,		SIX MONTHS ENDED DECEMBER 31,	
	2008 (Restated)	2007	2008 (Restated)	2007
Net Revenues	$ 49,758	$ 36,969	$ 96,436	$ 75,205
Costs and Expenses:				
Cost of Goods Sold	9,231		15,295	
Salaries, wages and benefits	19,511	17,589	39,601	35,414
Provision for bad debts	5,987	5,216	11,732	11,845
Supplies	3,387	3,745	7,113	7,525
Purchased services	2,870	2,472	5,922	5,023
Other operating expenses	5,460	5,425	10,894	9,856
Rent and lease expense	776	755	1,560	1,485
Depreciation and amortization	1,699	1,278	3,404	2,502
Cost of patient service revenues	48,921	36,480	95,521	73,650
Operating Profit	837	489	915	1,555
Other Income (Expense):				
Gain on sale of assets	180		180	
Interest expense	(1,272)	(436)	(2,526)	(846)
Interest income	10	28	17	33
Earnings (Loss) from Continuing Operations before Income Taxes	(245)	81	(1,414)	742
Income Tax Expense (Benefit)	(84)	30	(650)	248
Earnings (Loss) from Continuing Operations	(161)	51	(764)	494
Loss from Discontinued Operations	(103)	(84)	(164)	(134)
Net Earnings (Loss)	$ (264)	$ (33)	$ (928)	$ 360
Earnings (Loss) Per Share:				
Continuing Operations:				
Basic	$ (0.02)	$ 0.01	$ (0.10)	$ 0.07
Diluted	$ (0.02)	$ 0.01	$ (0.10)	$ 0.06
Discontinued Operations:				
Basic	$ (0.01)	$ (0.01)	$ (0.02)	$ (0.02)
Diluted	$ (0.01)	$ (0.01)	$ (0.02)	$ (0.02)

Net Earnings (Loss):								
Basic	$	(0.03)	$	(0.00)	$	(0.12)	$	0.05
Diluted	$	(0.03)	$	(0.00)	$	(0.12)	$	0.05
Weighted-Average Common Shares Outstanding:								
Basic		7,990		7,515		7,963		7,514
Diluted		7,990		7,789		7,963		7,789

See notes to condensed consolidated financial statements.

SUNLINK HEALTH SYSTEMS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

	SIX MONTHS ENDED DECEMBER 31, 2008 (Restated)	2007
Net Cash Provided By (Used In) Operating Activities	$ (788)	$ 2,818
Cash Flows From Investing Activities:		
Expenditures for property, plant and equipment	(574)	(5,329)
Proceeds from sale of assets	522	
Net Cash Used in Investing Activities	(52)	(5,329)
Cash Flows From Financing Activities:		
Proceeds from issuance of common shares under stock option plans	108	13
Revolving advances, net	1,600	3,299
Payments on long-term debt	(1,462)	(453)
Net Cash Provided by Financing Activities	246	2,859
Net Increase (Decrease) in Cash and Cash Equivalents	(594)	348
Cash and Cash Equivalents at Beginning of Period	1,716	814
Cash and Cash Equivalents at End of Period	$ 1,122	$ 1,162
Supplemental Disclosure of Cash Flow Information:		
Cash Paid For:		
Interest	$ 1,734	$ 839
Income taxes	$ 820	$ 597
Non-cash investing and financing activities :		
Property, plant and equipment acquired but not paid	$	$ 1,028
Asset acquired under capital lease obligation	$ 131	$

See notes to condensed consolidated financial statements.

SUNLINK HEALTH SYSTEMS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

THREE AND SIX MONTHS ENDED DECEMBER 31, 2008 AND 2007

(all dollar amounts in thousands, except per share amounts)

(unaudited)

Note 1. Restatement and Basis of Presentation

Restatement

We have restated our Condensed Consolidated Financial Statements and other financial information in our Quarterly Report on Form 10-Q for the three and six months periods ended December 31, 2008 to correct the impact of non-cash accounting errors at our Carmichael s Cashway Pharmacy, Inc. subsidiary (Carmichael). The accompanying Condensed Consolidated Financial Statements were restated only to reflect the adjustments described below and do not reflect events occurring after February 13, 2009, the date of the filing of our original Form 10-Q, nor modify or update those disclosures that have been affected by subsequent events. Accordingly, this Form 10-Q/A should be read in conjunction with our filings made with the Securities and Exchange Commission.

In May 2009, Carmichael s then Chief Financial Officer (CFO) resigned. In June 2009, Carmichael hired a new CFO and in July 2009, the new Carmichael CFO and SunLink CFO began an investigation into unresolved accounting discrepancies between Carmichael s accounts receivable detail and its general ledger. When the new Carmichael CFO was unable to resolve the discrepancies, SunLink, in July 2009, engaged an outside accountant (the **Investigation Accountant**) to investigate the discrepancies. After being informed of the preliminary results of the Investigation Accountant s investigation, the Company informed the Audit Committee of SunLink s Board of Directors (the **Audit Committee**) of the preliminary findings by such Investigation Accountant. Based on such preliminary findings, on August 28, 2009 SunLink concluded that the impact of the Carmichael level accounting irregularities made it likely that SunLink s financial statements for the first, second and third fiscal quarters ended September 30, 2008, December 31, 2008 and March 31, 2009, respectively, should not be relied on.

As we previously disclosed in our Form 8-K filed on August 28, 2009, SunLink reached its conclusion on August 28, 2009, based on information reviewed by SunLink s management and SunLink s Audit Committee and SunLink s independent registered public accounting firm (the **Public Accountants**), including information provided by the Investigation Accountant. SunLink concluded that Carmichael s financial statements, among other things, had misstated the Subsidiary s accounts receivable during the referenced periods due to accounting calculation errors and improper period-end cut-off of certain accounts receivable systems and, as a result thereof, the SunLink financial statements for the quarters ended September 30, 2008, December 31, 2008 and March 31, 2009 contained errors in the amount of accounts receivable, net income (loss), revenues, provision for bad debts, allowance for doubtful accounts and contractual allowances. The Public Accountants concur with SunLink s conclusion with respect to the restatement of the condensed consolidated financial statements for the quarter ended September 30, 2008, December 31, 2008 and March 31, 2009.

The following table sets forth the effects of the restatement on certain line items within our previously reported condensed consolidated financial statements (in thousands, except per share data):

(in thousands, except per share amounts)

Condensed Consolidated Statements of Earnings

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Earnings (Loss) per Share		
Continuing Operations:		
Basic	(0.02)	0.05
Diluted	(0.02)	0.05
Net Earnings (Loss):		
Basic	(0.03)	0.03
Diluted	$ (0.03)	$ 0.03

	Six Months Ended	
	December 31, 2008 Restated	December 31, 2008 Previously Reported
Net Revenues	$ 96,436	$ 96,867
Provision for bad debts	11,732	11,122
Operating Profit	915	1,956
Loss from continuing operations before income taxes	(1,414)	(373)
Loss from continuing operations	(764)	(122)
Net Loss	(928)	(286)
Loss per Share		
Continuing Operations:		
Basic	(0.10)	(0.02)
Diluted	(0.10)	(0.02)
Net Loss:		
Basic	(0.12)	(0.04)
Diluted	$ (0.12)	$ (0.04)

(in thousands, except per share amounts)

Condensed Consolidated Balance Sheets

	December 31, 2008 Restated	December 31, 2008 Previously Reported
Receivables - net	$ 20,728	$ 21,769
Prepaid expenses and other	3,854	3,455
Total assets	108,557	109,199
Retained earnings	$ 24,623	25,265

The accompanying unaudited Condensed Consolidated Financial Statements as of and for the three and six month periods ended December 31, 2008 and 2007 have been prepared in accordance with Rule 10-01 of Regulation S-X of the Securities and Exchange Commission (SEC) and, as such, do not include all information required by accounting principles generally accepted in the United States of America. These Condensed Consolidated Financial Statements should be read in conjunction with the audited consolidated financial statements included in the SunLink Health Systems, Inc. (SunLink , we , our , ours , us or the Company) Annual Report on Form 10-K for the fiscal year ended June 30, 20(with the SEC on September 26, 2008. In the opinion of management, the Condensed Consolidated Financial Statements, which are unaudited, include all adjustments, consisting only of normal recurring adjustments, necessary to present fairly the financial position and results of operations for the periods indicated. The results of operations for the three and six month periods ended December 31, 2008 are not necessarily indicative of the results that may be expected for the entire fiscal year or any other interim period.

Note 2. Business Operations and Corporate Strategy

Business Operations

SunLink Health Systems, Inc. is a provider of healthcare services in certain rural and exurban markets in the United States. SunLink s business is composed of two business segments:

- Healthcare Facilities, which consist of
  - Our seven community hospitals which have a total of 402 licensed beds;
  - Our three nursing homes, which have a total of 261 licensed beds, each of which is located adjacent to a corresponding SunLink community hospital; and
  - Our four home health agencies, each of which operates in connection with a corresponding SunLink community hospital.
- Specialty Pharmacy, which consists of
  - Specialty pharmacy services;
  - Durable medical equipment;
  - Institutional pharmacy services; and
  - Retail pharmacy products and services.

SunLink has conducted its healthcare facilities business since 2001 and its specialty pharmacy business since April 2008. Our Specialty Pharmacy Segment is operated through SunLink ScriptsRx LLC and consists of a specialty pharmacy business acquired in April 2008 with four service lines.

Strategy

SunLink s business strategy for our healthcare facilities is to focus our efforts on internal growth of our seven hospitals, three nursing homes and four home health agencies, supplemented by growth from selected rural and exurban healthcare facility acquisitions, including, but not limited to hospitals, nursing homes and home health agencies. During the quarter and six months ended December 31, 2008, we concentrated our healthcare facilities efforts on the operations of our existing hospitals. During the current and prior fiscal years, we have evaluated certain rural and exurban hospitals and healthcare facilities which were for sale and monitored other selected rural and exurban healthcare acquisition targets we believed might become available for sale. We continue to engage in similar evaluation and monitoring activities with respect to rural and exurban hospitals and healthcare facilities, which are or may become available for acquisition.

Our acquisition strategy for our pharmacy business is to acquire such businesses in rural or exurban markets where the acquisition is complementary to our existing pharmacy services and in new rural and exurban markets where the scale of the acquisition is sufficient to provide a foundation to grow Specialty Pharmacy in that area.

Note 3. Carmichael s Cashway Pharmacy Acquisition

On April 22, 2008, SunLink acquired Carmichael s Cashway Pharmacy, Inc. (Carmichael). The Carmichael acquisition purchase price was $24,000, consisting of $19,000 cash, seller subordinated debt of $3,000 and $2,000 in SunLink shares (334,448 shares). Carmichael had annual revenues of approximately $42,200 for its year ended December 31, 2007 and at the time of acquisition had been in business for over 35 years. Carmichael provides services to patients in rural communities in southwest Louisiana and eastern Texas.

The following table presents selected unaudited consolidated financial information of our company, for the three and six months ended December 31, 2007, as if the acquisition of Carmichael had occurred on July 1, 2007. The pro forma results are derived from the historical financial results of Carmichael for all periods presented and are not necessarily indicative of the results that would have occurred had the acquisition been consummated on July 1, 2007.

	Unaudited Six Months Ended December 31, 2007	Unaudited Three Months Ended December 31, 2007
Revenues	$ 97,462	$ 48,097
Earnings (Loss) from Continuing Operations	123	(352)
Earnings (loss) per share from Continuing Operations, diluted	$ 0.02	$ (0.04)

Note 4. Discontinued Operations

All of the businesses discussed below are reported as discontinued operations and the condensed consolidated financial statements for all prior periods have been adjusted to reflect this presentation.

Results for all of the businesses included in discontinued operations are presented in the following table:

	Three Months Ended December 31,		Six Months Ended December 31,	
	2008	2007	2008	2007
Loss from discontinued operations:				
Housewares Segment:				
Loss from operations	$ (122)	$ (109)	$ (140)	$ (137)
Income tax benefit	(48)	(43)	(55)	(54)
Loss from Housewares Segment after taxes	(74)	(66)	(85)	(83)
Mountainside Medical				
Loss from operations	(33)	(19)	(98)	(59)
Income tax benefit	(13)	(8)	(37)	(23)
Loss from Mountainside Medical Center after taxes	(20)	(11)	(61)	(36)
Life sciences and engineering segment:				
Loss from operations	(14)	(12)	(29)	(25)
Income tax benefit	(5)	(5)	(11)	(10)
Loss from life sciences and engineering segment after income taxes	(9)	(7)	(18)	(15)
Loss from discontinued operations	$ (103)	$ (84)	$ (164)	$ (134)

Housewares Segment - Beldray Limited (Beldray), a U.K. housewares manufacturing subsidiary, was sold on October 5, 2001 to two of its managers for nominal consideration. KRUG International U.K. Ltd. (KRUG UK), an inactive U.K. subsidiary of SunLink, entered into a guarantee (the Beldray Guarantee), at a time when it owned Beldray. The Beldray Guarantee covers Beldray s obligations under a lease of a portion of Beldray s former manufacturing location. KRUG UK was placed into involuntary liquidation by the High Court in February 2005. SunLink s non-current liability reserves for discontinued operations at December 31, 2008, included a reserve for a portion of the Beldray Guarantee, which would include certain amounts sought pursuant to the application made by the liquidator of KRUG UK. See the Legal Proceedings subsection in Note 14 Commitments and Contingencies which follows for additional disclosure of the application.

Mountainside Medical Center - On June 1, 2004, SunLink completed the sale of its Mountainside Medical Center (Mountainside) hospital in Jasper, Georgia, for approximately $40,000 pursuant to the terms of an asset sale agreement. Under the terms of the agreement, SunLink sold the operations of Mountainside, which included substantially all the property, plant and equipment and the supplies inventory. SunLink retained Mountainside s working capital except for supplies inventory. The retained liabilities of Mountainside are shown in current liabilities of Mountainside Medical Center on the consolidated balance sheet. The pre-tax losses in the quarter ended December 31, 2008 with respect to the former Mountainside operations resulted primarily from legal expenses related to a claim made by the buyer of Mountainside and a counterclaim made by SunLink. See the Legal Proceedings subsection in Note 14 Commitments and Contingencies which follows for additional disclosure of the claims.

Life Sciences and Engineering Segment - SunLink retained a defined benefit retirement plan which covered substantially all of the employees of this segment when it was sold in fiscal 1998. Effective February 28, 1997, the plan was amended to freeze participant benefits and close the plan to new participants. Included in discontinued operations for the three and six months ended December 31, 2008 and 2007, respectively, were the following:

	Three Months Ended December 31		Six Months Ended December 31	
	2008	2007	2008	2007
Interest cost	$ 18	$ 18	$ 36	$ 36
Expected return on assets	(13)	(14)	(25)	(27)
Amortization of prior service cost	9	8	18	16
Net pension expense	$ 14	$ 12	$ 29	$ 25

SunLink did not contribute to the plan in the six months ended December 31, 2008. We expect to make no contribution to the plan through the end of the fiscal year ending June 30, 2009.

Industrial Segment - In fiscal 1989, SunLink discontinued the operations of its industrial segment and subsequently disposed of substantially all related net assets. However, obligations may remain relating to product liability claims for products sold prior to the disposal.

Discontinued Operations Reserves - Over the past 19 years, SunLink has discontinued operations carried on by its former Mountainside Medical Center and its former industrial, U.K. leisure marine, life sciences and engineering, and European child safety segments, as well as the U.K. housewares segment. SunLink s reserves relating to discontinued operations of these segments represent management s best estimate of SunLink s possible liability for property, product liability and other claims for which SunLink may incur liability. These estimates are based on management s judgments, using currently available information, as well as, in certain instances, consultation with its insurance carriers, third party advisors and legal counsel. While estimates have been based on the evaluation of available information, it is not possible to predict with certainty the ultimate outcome of many contingencies relating to discontinued operations. SunLink intends to continue to adjust its estimates of the reserves as additional information is developed and evaluated. However, management believes that the final resolution of these contingencies will not have a material adverse impact on the financial position, cash flows or results of operations of SunLink.

Note 5. Stock-Based Compensation

For the three months ended December 31, 2008 and 2007, SunLink recognized $26 and $103, respectively, in salaries, wages and benefit expense for share options issued to employees and directors of the Company and for the six months ended December 31, 2008 and 2007, SunLink recognized $147 and $206 respectively, in salaries, wages and benefit expense for share options issued to employees and directors of the Company. The fair value of the share options granted was estimated using the Black-Scholes option pricing model. There were zero share options granted during the three months ended December 31, 2008 and 28,000 share options granted during the six months ended December 31, 2008.

In November 2008, SunLink approved an Executive Bonus Plan for 2009 (the Plan), which is a variable cash incentive program designed to reward Executives of SunLink and its affiliates for successful achievement of certain short-term corporate goals and objectives. The Plan is being offered to all of the Company s executive officers and certain other employees, and requires that each participant, in order to participate in the Plan, agree to relinquish any and all stock options, such executive officer holds, that have an exercise price equal to or greater than $6.00 per share. During the quarter ended December 31, 2008, stock options totaling 601,106 shares were relinquished under the Plan.

Note 6 Recent Accounting Pronouncements

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. SFAS No. 157 applies to other accounting pronouncements that require or permit fair value measurements and does not require any new fair value measurements.

Effective July 1, 2008, the Company adopted the provisions of SFAS No. 157 for financial assets and liabilities, as well as for any other assets and liabilities that are carried at fair value on a recurring basis. The adoption of the provisions of SFAS No. 157 related to financial assets and liabilities and other assets and liabilities that are carried at fair value on a recurring basis did not materially impact the Company s consolidated financial position and results of operations.

In February 2008, the FASB issued FASB Staff Position (FSP) 157-2, *Effective Date of FASB Statement No. 157* which provides for a one-year deferral of the provisions of SFAS No. 157 for non-financial assets and liabilities that are recognized or disclosed at fair value in the consolidated financial statements on a non-recurring basis. The Company is currently evaluating the impact of adopting the provisions of Statement No. 157 for non-financial assets and liabilities that are recognized or disclosed on a non-recurring basis (adoption is required on July 1, 2009).

In October 2008, the FASB issued FSP No. 157-3, *Determining the Fair Value of a Financial Asset When the Market for that Asset is not Active* , which provides guidance for determining the fair value of a financial asset in an inactive market. The adoption of FSP 157-3 did not have a material impact on the Company s consolidated financial statements.

SFAS No. 157 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. SFAS No. 157 also establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. SFAS No. 157 describes three levels of inputs that may be used to measure fair value:

Level 1 - quoted prices in active markets for identical assets or liabilities;

Level 2 - quoted prices for similar assets and liabilities in active markets or inputs that are observable;

Level 3 - inputs that are unobservable (for example cash flow modeling inputs based on assumptions).

The following table summarizes liabilities measured at fair value on a recurring basis at December 31, 2008, as required by SFAS No. 157. These liabilities were recorded in other accrued expenses in the consolidated balance sheet.

	Fair Value Measurements Using:			
	Level 1	Level 2	Level 3	Total
Liabilities:				
Derivative liabilities	$	$ 659	$	$ 659

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities,* which provides companies with an option to report selected financial assets and liabilities at fair value. It also establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities. SFAS No. 159 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. There has been no effect on the consolidated statement of earnings from the adoption of this statement.

In March 2007, the FASB issued SFAS No. 141R, *Business Combinations*, which is intended to improve, simplify, and converge internationally the accounting for business combinations and the reporting of noncontrolling interests in consolidated financial statements. Under SFAS No. 141R, an acquiring entity will be required to recognize all the assets acquired and liabilities assumed in a transaction at the acquisition-date fair value with limited exceptions. SFAS No. 141R includes a substantial number of new disclosure requirements. SFAS No. 141R applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. Earlier adoption is prohibited. The Company will comply with the new SFAS No. 141R requirements for any business combination transactions concluded after June 30, 2009.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements An Amendment of ARB No. 51*, which establishes new accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS No. 160 is intended to improve the relevance, comparability, and transparency of financial information provided to investors by requiring all entities to report noncontrolling (minority) interests in subsidiaries in the same way as equity in the consolidated financial statements. SFAS No. 160 includes expanded disclosure requirements regarding the interests of the parent and its noncontrolling interest. SFAS No. 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. Earlier adoption is prohibited. The Company is currently evaluating the effect of adopting SFAS No. 160 on the Company s consolidated financial statements.

In March 2008, the FASB issued SFAS No. 161 *Disclosures about Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133*, which requires enhanced disclosures about an entity s derivative and hedging activities and thereby improves the transparency of financial reporting. SFAS No 161 is effective for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. This Statement encourages, but does not require, comparative disclosures for earlier periods at initial adoption. The Company is currently evaluating the effect of adopting SFAS No. 161 on the Company s consolidated financial statements.

In April 2008, the FASB issued FSP No. FAS 142-3, *Determination of the Useful Life of Intangible Assets*. This FSP amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under

SFAS No. 142, *Goodwill and Other Intangible Assets*. The Company is required to adopt FSP 142-3 on September 1, 2009; earlier adoption is prohibited. The guidance in FSP 142-3 for determining the useful life of a recognized intangible asset shall be applied prospectively to intangible assets acquired after adoption, and the disclosure requirements shall be applied prospectively to all intangible assets recognized as of, and subsequent to, adoption. The Company is currently evaluating the effect of FSP 142-3 on its consolidated financial statements

In May 2008, the FASB issued SFAS No. 162, *Hierarchy of Generally Accepted Accounting Principles* (*SFAS 162*). This statement is intended to improve financial reporting by identifying a consistent framework, or hierarchy, for selecting accounting principles to be used in preparing financial statements of nongovernmental entities that are presented in conformity with GAAP. This statement will be effective 60 days following the U.S. Securities and Exchange Commission s approval of the Public Company Accounting Oversight Board amendment to AU Section 411, *The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles.* The adoption of this Statement is not expected to have a material impact on the Company s consolidated financial statements.

In September 2008, the FASB issued FSP No. FSP FAS 133-1 and FIN 45-4, *Disclosures about Credit Derivatives and Certain Guarantees: An Amendment of FASB Statement No. 133 and FASB Interpretation No. 45; and Clarification of the Effective Date of FASB Statement No. 161*. This FSP amends FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*, to require disclosures by sellers of credit derivatives, including credit derivatives embedded in a hybrid instrument. This FSP also amends FASB Interpretation No. 45, *Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*, to require an additional disclosure about the current status of the payment/performance risk of a guarantee. Further, this FSP clarifies the Board s intent about the effective date of FASB Statement No. 161, *Disclosures about Derivative Instruments and Hedging Activities*. This FSP is effective for fiscal years and interim periods ending after November 15, 2008. The adoption of this Statement did not have a material impact on the Company s consolidated financial statements.

Note 7. Receivables - net

	December 31, 2008 (Restated)	June 30, 2008
Accounts receivable (net of contractual allowances)	$ 35,165	$ 34,190
Less allowance for doubtful accounts	(14,437)	(14,138)
Receivables - net	$ 20,728	$ 20,052

Net revenues included $24 and $249 for the three months ended December 31, 2008 and 2007, respectively, for the settlements and filings of prior year Medicare and Medicaid cost reports. Net revenues included $272 and $324 for the six months ended December 31, 2008 and 2007, respectively, for the settlements and filings of prior year Medicare and Medicaid cost reports.

Note 8. Goodwill and Intangible Assets

SunLink has goodwill and intangible assets resulting from acquisitions of its Healthcare Facilities and Specialty Pharmacy segments.

Intangibles consist of the following, net of amortization:

	December 31, 2008	June 30, 2008
Specialty Pharmacy Segment	$ 12,356	$ 12,721
Healthcare Facilities Segment	619	706
	$ 12,975	$ 13,427

Amortization expense was $226 and $42, for the quarters ended December 31, 2008 and 2007, respectively. Amortization expense was $452 and $85, for the six months ended December 31, 2008 and 2007, respectively.

Goodwill consists of the following:

	December 31, 2008	June 30, 2008
Healthcare Facilities Segment	$ 2,944	$ 2,944
Specialty Pharmacy Segment	6,509	6,509
	$ 9,453	$ 9,453

Note 9. Long-Term Debt

Long-term debt consisted of the following:

	December 31, 2008	June 30, 2008
Term Loan	$ 33,461	$ 34,854
Capital lease obligations	169	108
Total	33,630	34,962
Less current maturities	(1,846)	(1,844)
	$ 31,784	$ 33,118

SunLink Credit Facilities - On April 23, 2008, SunLink entered into a $47,000 seven-year senior secured credit facility (2008 Credit Facility) comprised of a revolving line of credit of up to $12,000 with an interest rate at LIBOR plus 3.50% (6.25% at December 31, 2008) (the Revolving Loan) and a $35,000 term loan with an interest rate at LIBOR plus 5.07% (7.82% at December 31, 2008) (the Term Loan). In the 2008 Credit Facility, LIBOR is defined as the Thirty-Day published rate, not to be less than 2.75%, however it may not exceed 5.50%. The total availability of credit under all components of the credit facility is keyed to the level of SunLink s earnings, which, based upon the Company s estimates, provided for current borrowing capacity, before any draws, of approximately $44,500 at December 31, 2008. At closing, the entire $35,000 term loan and $5,500 of the revolving loan were drawn. The Company used the initial proceeds of the loans in the amount of $40,500 to repay outstanding debt, including its 2004 Credit Agreement, to pay the cash portion of the purchase price for the Carmichael acquisition, to pay fees and expenses thereunder and for general corporate purposes. Costs and fees related to execution of the credit facility were $2,174. The fees will be amortized over seven years at approximately $370 a year and are recorded in other assets and other non-current assets. Amortization expense was $95 and $187, respectively, for the quarter and six months ended December 31, 2008. Accumulated amortization was $248 at December 31, 2008. The Credit Facility is secured by a first priority security interest in substantially all real and personal property of the Company and its consolidated domestic subsidiaries, including a pledge of all of the equity interests in such subsidiaries.

Note 10. Subordinated Long-Term Debt

Subordinated long-term debt consisted of the following:

	December 31, 2008	June 30, 2008
Carmichael	$ 3,000	$ 3,000
Less current maturities	(300)	(150)
	$ 2,700	$ 2,850

Carmichael s Loan - On April 22, 2008, SunLink Scripts Rx, LLC (formerly known as SunLink Homecare Services LLC) entered into a $3,000 promissory note agreement with an interest rate of 8% with the former owners of Carmichael as part of the acquisition purchase price. The note is payable in semi-annual installments of $150 beginning on April 22, 2009 with the remaining balance of $1,200 due April 22, 2015. Interest is payable in arrears semi-annually on the six-month anniversary of the issuance of the note. The note is guaranteed by SunLink Health Systems, Inc. for the payment of the note and accrued interest. The note is subordinate to the 2008 Credit Facility.

Note 11. Income Taxes

Income tax benefit of $84 ($58 federal tax benefit and $26 state tax benefit) and income tax expense of $30 ($27 federal tax expense and $3 state tax expense) was recorded for the three months ended December 31, 2008 and 2007, respectively. Income tax benefit of $650 ($577 federal tax benefit and $73 state tax benefit) and income tax expense of $248 ($222 federal tax expense and $26 state tax expense) was recorded for the six months ended December 31, 2008 and 2007, respectively. We had an estimated net operating loss carry-forward for federal income tax purposes of approximately $6,500 at December 31, 2008. Use of this net operating loss carry-forward is subject to the limitations of the provisions of Internal Revenue Code Section 382. As a result, not all of the net operating loss carry-forward is available to offset federal taxable income in the current year. At December 31, 2008, we have provided a partial valuation allowance against the domestic deferred tax asset so that the net domestic tax asset was $2,829. Based upon management s assessment that it was more likely than not that a portion of its domestic deferred tax asset (primarily its domestic net operating losses subject to limitation) would not be recovered, the Company established a valuation allowance for the portion of the domestic tax asset which may not be utilized. The Company has provided a valuation allowance for the entire amount of the foreign tax asset as it is more likely than not that none of the foreign deferred tax assets will be realized through future taxable income or implementation of tax planning strategies.

The Company adopted the provisions of FASB Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109* on July 1, 2007. It requires that a change in judgment related to prior years tax positions be recognized in the quarter of such change. As a result of the implementation of FIN 48, the Company recognized a liability for unrecognized tax benefits in the amount of $58 which was accounted for as the creation of a deferred tax asset as of July 1, 2007. A reconciliation of the beginning and ending amounts of unrecognized tax benefits is as follows:

Balance at July 1, 2008	$ 58
Additions based on tax positions related to current year	7
Additions for tax positions of prior years	
Reductions for tax positions of current year	
Reductions for tax positions of prior years	(11)
Settlements	
Balance at December 31, 2008	$ 54

The Company and its subsidiaries files income tax returns in the U.S. federal jurisdiction, and various states and foreign jurisdictions. The Company is not currently subject to U.S. federal, state or local, or non-U.S. income tax examinations by tax authorities for any tax years. We therefore believe that there is no tax jurisdiction in which the outcome of unresolved issues or claims is likely to be material to our financial position, cash flows or results of operations. We further believe that we have made adequate provision for all income tax uncertainties.

At July 1, 2008, our unrecognized tax benefits, the aggregate tax effect of differences between tax return positions and the benefits recognized in our financial statements as shown above, amounted to $58. This amount decreased during the current period to $54. If recognized, all of our unrecognized tax benefits would not reduce our income tax expense or effective tax rate except as such recognition related to the removal of the liability associated with interest classified as income tax expense. No portion of any such reduction might be reported as discontinued operations. During 2008, certain factors could potentially reduce our unrecognized tax benefits, either because of the expiration of open statutes of limitation or modifications to our intercompany accounting policies and procedures. Of these tax positions, none relate to positions that would affect our total tax provision or effective tax rate (except as such recognition related to the removal of the liability associated with interest classified as income tax expense).

We classify interest on tax deficiencies and income tax penalties as tax expense. At July 1, 2008, before any tax benefits, our accrued interest on unrecognized tax benefits amounted to $10 and we had recorded no related accrued penalties. The amount of accrued interest increased by $2 during the six months ended December 31, 2008 to $12.

Note 12. Minority Interest

On February 1, 2008, SunLink sold 17% of the Chilton Medical Center in Clanton, Alabama, to individual physicians practicing at that facility. The minority interest reported reflects these physicians ownership interest at December 31, 2008. The results of operations for the period from February 1, 2008 to June 30, 2008 and from July 1, 2008 to December 31, 2008 were a loss and did not result in any change in the physicians ownership interest.

Note 13. Comprehensive Earnings

Comprehensive earnings for SunLink include foreign currency translation adjustments and change in minimum pension liability. The foreign currency translation adjustment results primarily from the effect of changes in the exchange rates of the UK pound on the Company s reserve for the Beldray Guarantee (See Note 4. *Discontinued Operations*).

Total comprehensive earnings for the following periods were as follows:

	Three Months Ended December 31,		Six Months Ended December 31,	
	2008 (Restated)	2007	2008 (Restated)	2007
Net earnings (loss)	$ (264)	$ (33)	$ (928)	$ 360
Other comprehensive income net of tax:				
Change in equity due to:				
Foreign currency translation adjustments	165	42	333	14
Comprehensive earnings (loss)	$ (99)	$ 9	$ (595)	$ 374

Note 14. Commitments and Contingencies

On July 13, 2006, Piedmont Healthcare, Inc. (PHI) and Piedmont Mountainside Hospital, Inc. (PMH) (collectively the Plaintiffs or Piedmont filed a Complaint in the Superior Court of Cobb County, Georgia, alleging breach of the Asset Purchase Agreement (the Agreement) dated as of April 9, 2004 by and among PMH, Piedmont Medical Center, Inc. (n/k/a PMI), Southern Health Corporation of Jasper, Inc. (SHCJ), SunLink Healthcare LLC (formerly SunLink Healthcare Corp.) and SunLink (collectively Defendants or SunLink) pursuant to which the Mountainside Medical Center was sold to PMH in June 2004. Specifically, Piedmont seeks to have SunLink reimburse Piedmont for certain costs associated with an alleged indigent and charity care shortfall of Piedmont Mountainside Hospital (formerly Mountainside Medical Center) for the fiscal year ended June 30, 2004 demanded by the Georgia Department of Community Health (DCH). In addition, Piedmont seeks reimbursement for funds allegedly recouped from PMH by DCH in respect of Medicaid Cost Report settlements and adjustments for the reporting periods ended June 30, 2002, June 30, 2003 and May 31, 2004. Piedmont also seeks a declaratory judgment to the effect that PMH may retain certain payments it has received or likely will receive from the DCH s Indigent Care Trust Fund for Disproportionate Share Hospitals. Piedmont also seeks recovery of costs and attorney s fees pursuant to the Agreement and under Georgia Law.

On August 11, 2006, SunLink filed an Answer to the complaint asserting factual and legal defenses, along with a Counterclaim. In the Counterclaim, SHCJ alleges that PMH breached the Agreement by failing to reimburse SHCJ for certain Medicaid Cost Report adjustments for the reporting periods ended June 30, 1999, and June 30, 2000, as well as funds paid or expected to be paid to PMH from the DCH s Indigent Care Trust Fund for Disproportionate Share Hospitals, which payments Defendants contend qualify as excluded assets not sold to PMH under the Agreement. SHCJ also alleged that PMH breached the Agreement by failing to cooperate with SHCJ in an appeal of certain Medicaid Cost Reports settlements for the reporting period ended June 30, 2002, June 30, 2003 and May 31, 2004. SHCJ further alleged that Piedmont breached its obligations to guarantee PMH s payment and performance of its obligations under the Agreement. SunLink sought a declaratory judgment regarding the parties rights in respect of the Medicaid Cost Report settlements and adjustments, as well as the payment made and expected to be made under the Indigent Care Trust Fund. Also, SunLink sought to recover their costs and attorney s fees pursuant to the Agreement and under Georgia law.

On October 13, 2008, the Superior Court of Cobb County, Georgia, ruled in SunLink s favor and determined that the May and August 2006 DSH payments constitute excluded assets not sold to PMH under the Agreement and, therefore, the right to receive the payments belonged to SunLink. By PMH retaining the payments for itself and failing to pay an equivalent amount of money to SunLink, PMH was in breach of the agreement. PMH is liable to SunLink for damages in the amount of $1,056 plus prejudgment interest from August 11, 2006 to October 13, 2008 at the legal rate of 7%. Since PMH appealed the above ruling, SunLink has not recorded a receivable for the judgment amount.

As discussed in Note 4. *Discontinued Operations* , SunLink sold its former U.K. housewares manufacturing subsidiary, Beldray Limited (Beldray), to two of its managers in October 2001. Beldray has since entered into administrative receivership and is under the administration of its primary lender. SunLink believes Beldray ceased to operate in October 2004.

KRUG International U.K. Ltd. (KRUG UK), an inactive U.K. subsidiary of SunLink, entered into a guarantee (the Beldray Guarantee), at a time when it owned Beldray. The Beldray Guarantee covers Beldray s obligations under a lease of a portion of Beldray s former manufacturing location. KRUG UK was placed into involuntary liquidation by the High Court in February 2005.

On August 6, 2007, the liquidator of KRUG UK made an application in the Birmingham County Court in Birmingham, England, in which the liquidator is seeking a declaration by the court that a transfer of certain funds in 2001 from KRUG UK to SunLink in connection with the purchase of certain preferred stock of another subsidiary of SunLink and the making of a loan to SunLink, and certain forgiveness of debt to SunLink by KRUG UK was improper, among other things, as KRUG UK was then effectively insolvent and that the approval of such transfers by the then directors of KRUG UK resulted in a breach of their fiduciary duties. The liquidator seeks to have the court order the former directors or, in the alternative, the Company, to account for, repay or restore such funds plus interest to the liquidator of KRUG UK. On December 4, 2007, the case went to mediation but no settlement was reached. In connection with the allegations in the application of breach of fiduciary duty by the directors of KRUG UK in approving such transfer of funds, SunLink has indemnification obligations to the former directors of KRUG UK. SunLink denies any liability to KRUG UK other than to it in KRUG UK s status as a preferred stockholder (the unpaid balance on the promissory note was paid by SunLink at maturity in August 2008). SunLink, through its United Kingdom counsel, intends to vigorously defend against the liquidator s claims.

SunLink s non-current liability reserves for discontinued operations at December 31, 2008, included a reserve for a portion of the Beldray Guarantee. Such reserve was based upon management s estimate, after consultation with its property consultants and legal counsel, of the cost to satisfy the Beldray Guarantee in light of KRUG UK s limited assets and before taking into account any other claims against KRUG UK. The maximum potential obligation of KRUG UK for rent under the Beldray Guarantee is estimated to be approximately $8,400. SunLink expensed $122 in the three months ended December 31, 2008 and $140 in the six months ended December 31, 2008 on legal costs to defend against the claim. As a result of this claim and the U.K. liquidation proceedings against KRUG UK, SunLink expects KRUG UK to be wound-up in liquidation in the UK and has fully reserved for any assets of KRUG UK.

Additional contingent obligations, other than with respect to our existing operations, include potential product liability claims for products manufactured and sold before the disposal of our discontinued industrial segment in fiscal year 1989 and for guarantees of certain obligations of former subsidiaries. We have provided an accrual at December 31, 2008 related to the Beldray Lease Guarantee, as discussed above. Based upon an evaluation of information currently available and consultation with legal counsel, management has not reserved any amounts for contingencies related to these liquidations.

SunLink is a party to claims and litigation incidental to its business, for which it is not currently possible to determine the ultimate liability, if any. Based on an evaluation of information currently available and consultation with legal counsel, management believes that resolution of such claims and litigation is not likely to have a material effect on the financial position, cash flows, or results of operations of the Company. The Company expenses legal costs as they are incurred.

Other

The former owners of Carmichael s Cashway Pharmacy, Inc. received 334,448 common shares of SunLink as partial consideration for the business and SunLink is obligated to pay the difference between the market value at business sale date and the price per share received for any shares sold less $1 per share if these shares are sold within one year from the acquisition date. The put option derivative liability as of December 31, 2008 was $659 and was recorded in other accrued expenses in the consolidated balance sheet. See Notes 3 and 6.

In August 2007, the Company received final approval of a Certificate of Need application with the State of Georgia to build a replacement hospital in Ellijay, Georgia. SunLink exercised its option to purchase land in Ellijay, however the seller failed to close, and SunLink and the seller of the land are currently in litigation and the outcome is uncertain. Cost for such property is approximately $3,300. Except for the Ellijay, Georgia land purchase, there are no other material future commitments for capital expenditures.

Contractual Obligations, Commitments and Contingencies

Contractual obligations, commitments and contingencies related to long-term debt, non-cancelable operating leases, physician guarantees and interest on outstanding debt from continuing operations at December 31, 2008 were as follows:

Payments due in:	**Long-Term Debt**	**Subordinated Long-Term Debt**	**Operating Leases**	**Physician Guarantees**	**Interest On Outstanding Debt**	**Interest On Subordinated Outstanding Debt**
1 year	$ 1,750	$ 300	$ 2,669	$	$ 2,573	$ 228
2 years	1,750	300	1,751		2,425	204
3 years	1,750	300	870		2,289	180
4 years	1,750	300	463		2,137	156
5 years	1,750	300	282		2,001	132
5 years +	24,711	1,500	1,280		1,932	120
	$ 33,461	$ 3,000	$ 7,315	$	$ 13,357	$ 1,020

At December 31, 2008 SunLink had no outstanding contracts with physicians that contained guaranteed minimum gross receipts. A physician with whom a guarantee agreement is made generally agrees to maintain his/her practice within the hospital geographic area for a specific period (normally three years) or be liable to repay all or a portion of the guarantee received. The physician s liability for any guarantee repayment due to non-compliance with guarantee provisions generally is collateralized by the physician s patient accounts receivable and/or a promissory note from the physician. SunLink expensed $195 and $169 on physician guarantees and recruiting for the three months ended December 31, 2008 and 2007, respectively, and expensed $384 and $316 on physician guarantees and recruiting for the six months ended December 31, 2008 and 2007, respectively. The table above shows noncancelable commitments under physician guarantee contracts as of December 31, 2008.

Note 15. Related Party Transactions

A director of the Company and our company secretary (who was a director of SunLink until November 2003 and is now a director emeritus) are members of two different law firms, each of which provides services to SunLink. The Company has paid to these firms an aggregate of $114 and $242 for the three months ended December 31, 2008 and 2007, respectively, and $315 and $439 for the six months ended December 31, 2008 and 2007, respectively for such services.

Note 16. Financial Information By Segments

Prior to the acquisition of Carmichael in April 2008, we operated as a single business segment. Under SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information,* operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker, or decision-making group, in deciding how to allocate resources and in assessing performance. Our chief operating decision-making group is composed of the chief executive officer and members of senior management. Our two reportable operating segments are Healthcare Facilities and Specialty Pharmacy.

We evaluate performance of our operating segments based on revenue and operating profit (loss). Segment information for the quarter and six months ended December 31, 2008 is as follows:

	Healthcare Facilities	Specialty Pharmacy	Corporate And Other	Total
Three months ended December 31, 2008: (Restated)				
Net Revenues from external customers	$ 36,430	$ 13,328	$	$ 49,758
Operating profit (loss)	1,236	745	(1,144)	837
Depreciation and amortization	1,209	379	111	1,699
Assets	71,517	28,803	8,237	108,557
Expenditures for property, plant and equipment	$ 209	$ 80	$ 34	$ 323
Six months ended December 31, 2008: (Restated)				
Net Revenues from external customers	$ 73,497	$ 22,939	$	$ 96,436
Operating profit (loss)	2,598	991	(2,674)	915
Depreciation and amortization	2,421	754	229	3,404
Assets	71,517	28,803	8,237	108,557
Expenditures for property, plant and equipment	$ 342	$ 187	$ 176	$ 705

ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (dollars in thousands, except per share and admissions data)

Forward-Looking Statements

This Quarterly Report and the documents that are incorporated by reference in this Quarterly Report contain certain forward-looking statements within the meaning of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995. Forward-looking statements include all statements that do not relate solely to historical or current facts and may be identified by the use of words such as may, believe, will, expect, project, estimate, anticipate, plan or continue. These forward-looking statements are plans and expectations and are subject to a number of risks, uncertainties and other factors which could significantly affect current plans and expectations and our future financial condition and results. These factors, which could cause actual results, performance and achievements to differ materially from those anticipated, include, but are not limited to:

General Business Conditions

general economic and business conditions in the U.S., both nationwide and in the states in which we operate;

the competitive nature of the U.S. community hospital, nursing home, homecare and specialty pharmacy businesses;

demographic changes in areas where we operate;

the availability of cash or borrowings to fund working capital, renovations, replacements, expansions and capital improvements at existing healthcare facilities and for acquisitions and replacement healthcare facilities;

changes in accounting principles generally accepted in the U.S.; and,

fluctuations in the market value of equity securities including SunLink common shares;

Operational Factors

inability to operate profitability in one or more segments of the healthcare business;

the availability of, and our ability to attract and retain, sufficient qualified staff physicians, management, nurses, pharmacists and staff personnel for our operations;

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