SUNLINK HEALTH SYSTEMS, INC.

900 Circle 75 Parkway, Suite 1120
Atlanta, Georgia 30339

October 12, 2010

Dear Shareholder:

You are cordially invited to attend the Annual Meeting of Shareholders which will be held at 10:00 a.m., local time, on Monday, November 8, 2010, at the Renaissance Waverly Hotel, 2450 Galleria Parkway, Atlanta, Georgia 30339.

The accompanying Notice of the Annual Meeting and Proxy Statement contain detailed information concerning the matters to be considered and acted upon at the meeting. The Company's 2010 Annual Report to Shareholders is also enclosed.

We hope you will be able to attend the meeting.

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

- by following the Internet voting procedures described in these proxy materials;
- by following the telephone voting procedures described in these proxy materials; or
- by executing and returning the enclosed proxy card at your earliest convenience to ensure representation at the meeting.

Whether or not you plan to attend the meeting, please execute and return the enclosed proxy card at your earliest convenience to ensure representation at the meeting or vote via telephone or the Internet. If you later find you can attend the meeting, you may then withdraw your proxy and vote in person.

Sincerely,

ROBERT M. THORNTON, JR.
President and Chief Executive Officer

SUNLINK HEALTH SYSTEMS, INC.

900 Circle 75 Parkway, Suite 1120
Atlanta, Georgia 30339

NOTICE OF 2010 ANNUAL MEETING OF SHAREHOLDERS
TO BE HELD ON NOVEMBER 8, 2010

To the Shareholders of
SUNLINK HEALTH SYSTEMS, INC.:

The Annual Meeting of Shareholders of SUNLINK HEALTH SYSTEMS, INC. will be held at 10:00 a.m., local time, on Monday, November 8, 2010, at the Renaissance Waverly Hotel, 2450 Galleria Parkway, Atlanta, Georgia 30339, for the purpose of considering and voting upon:

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

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

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

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

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

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

By order of the Board of Directors of
SunLink Health Systems, Inc.

/s/ JAMES J. MULLIGAN

James J. Mulligan
Secretary
October 12, 2010

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SUNLINK HEALTH SYSTEMS, INC.
900 Circle 75 Parkway, Suite 1120
Atlanta, Georgia 30339

PROXY STATEMENT
FOR 2010 ANNUAL MEETING OF SHAREHOLDERS

GENERAL INFORMATION

We are providing these proxy materials to you in connection with the solicitation of proxies by the board of directors of SunLink Health Systems, Inc. for the 2010 Annual Meeting of Shareholders and for any adjournment or postponement of the annual meeting. In this Proxy Statement, we refer to SunLink Health Systems, Inc. as "SunLink," the "Company," "we" or "us."

We are holding the annual meeting at 10:00 a.m. local time, on Monday, November 8, 2010, at the Renaissance Waverly Hotel, 2450 Galleria Parkway, Atlanta, Georgia 30339, and invite you to attend in person.

These proxy materials include:

- Our proxy statement for the annual meeting; and
- Our 2010 Annual Report to Shareholders, which includes our audited consolidated financial statements.

All shareholders will have the ability to access the proxy materials on a website referred to in these proxy materials.

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

ABOUT THE MEETING

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

VOTING INFORMATION

All shares represented by properly executed proxies received by the board of directors pursuant to this solicitation will be voted in accordance with the shareholder's directions specified in the applicable voting instructions or proxy card. If no directions have been specified during Internet or telephone voting or by marking the appropriate places on physical proxy card, the shares will be voted in accordance with the board's recommendations which are:

- FOR the election of Karen B. Brenner, C. Michael Ford, Howard E. Turner and Christopher H.B. Mills as directors of the Company for a term of two years.
- FOR ratification of the appointment of Cherry, Bekaert & Holland, L.L.P. as the Company's independent registered public accounting firm for fiscal 2011.

A shareholder signing and returning a proxy has power to revoke it at any time prior to its exercise by delivering to the Company a later-dated proxy or by giving notice to the Company in writing or at the meeting, but without affecting any vote previously taken.

Record Date

You may vote all shares that you owned as of September 17, 2010, which is the record date for the annual meeting. On September 17, 2010, we had 8,081,732 common shares outstanding. Each common share is entitled to one (1) vote on each matter properly brought before the meeting.

Ownership Of Shares

If your shares are registered directly in your name, you are the holder of record of these shares and we are sending these proxy materials directly to you. As the holder of record, you have the right to give your proxy directly to us, give your voting instructions by telephone or by the Internet directly to us, or vote in person at the annual meeting. If you hold your shares in a brokerage account or through a bank or other holder of record, you hold the shares in "street name," and your broker, bank or other holder of record is sending these proxy materials to you. As a holder in street name, you have the right to direct your broker, bank or other holder of record how to vote by filling out a voting instruction form over the Internet or telephone, as provided to you by the holder of record or by filling out a voting instruction form from your broker that accompanies your proxy materials. Regardless of how you hold your shares, we invite you to attend the annual meeting.

Electronic Availability

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

How To Vote

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

By Telephone: If you are a holder of record located in the U.S., you can vote your shares by calling the toll-free telephone number provided on your proxy card or, if you are an owner in street name, by calling the toll-free number provided in the instructions from your broker. You may vote by telephone 24 hours a day. The telephone voting system has easy-to-follow instructions and allows you to confirm that the system has properly recorded your votes. If you vote by telephone, you do not need to return your proxy card.

By Internet: If you are a holder of record you can also vote your shares by using the Internet. Your proxy card indicates the website you need to access Internet voting. You may vote on the Internet 24 hours a day. As with telephone voting, you will be able to confirm that the system has properly recorded your votes. If you are an owner in street name, please follow the Internet voting instructions from your broker. You may incur telephone and Internet access charges if you vote on the Internet. If you vote by Internet, you do not need to return your proxy card.

By Mail: If you are a holder of record, you can vote by marking, dating and signing your proxy card and returning it by mail in the enclosed postage-paid envelope. If you hold your shares in street name, please complete and mail the voting instruction card.

At The Annual Meeting: If you vote your shares now, it will not limit your right to change your vote at the annual meeting if you attend in person. However, if you hold your shares in street name, you must obtain a proxy, executed in your favor, from the holder of record if you wish to vote your shares at the meeting.

All shares that have been properly voted and not revoked will be voted at the meeting. If you sign and return your proxy card without any voting instructions, your shares will be voted as the board of directors recommends.

Revocation Of Proxies: You can revoke your proxy at any time before your shares are voted if you: (1) submit a written revocation to our Secretary; (2) submit a later-dated proxy (or voting instructions if you hold shares in street name); (3) provide subsequent telephone or Internet voting instructions; or (4) vote in person at the meeting.

Quorum And Required Vote

Quorum: We will have a quorum and will be able to conduct the business of the annual meeting if the holders of a majority of the shares that are entitled to vote are present at the Meeting, either in person or by proxy.

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

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

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

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

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

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

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

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

CORPORATE GOVERNANCE

Our business is managed by the Company’s employees under the direction and oversight of the board of directors. Except for Mr. Thornton, none of our board members is an employee of the Company. The board limits membership on the audit committee, executive compensation committee (referred to in this proxy statement as the “c*ompensation committee*”) and strategic alternatives committee to independent non-management directors. We keep board members informed of our business through discussions with management, materials we provide to them, visits to our offices and facilities and their participation in board and board committee meetings.

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

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

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

Summary Of The Corporate Governance Principles

Independence

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

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

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

Business Combinations

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

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

Director Share Ownership

SunLink believes that each director should have a personal investment in the Company. Each outside director (or future outside director, as the case may be) is required to own at least one thousand (1,000), common shares of SunLink. Each outside director (or future outside director, as the case may be) must maintain ownership of such number of common shares until such outside director ceases to serve as a member of the board. Each of our incumbent directors has complied with such ownership requirement since at least July 1, 2008.

Annual Meeting Attendance

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

Communications By And With Directors

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

The board of directors has provided a means by which shareholders, employees or other interested persons may send communications to the board or to individual members of the board. Such communications, whether by letter, e-mail or telephone, should be directed to the Secretary of the Company at SunLink Health Systems, Inc., Office of Corporate Secretary, 900 Circle 75 Parkway, Suite 1120, Atlanta, Georgia 30339. Our corporate secretary will forward communications to the intended recipients. However, unsolicited advertisements or invitations to conferences or promotional material, in the discretion of the Secretary or his designee, may not be forwarded to the directors.

If a shareholder wishes to communicate to the chairperson of the audit committee about a concern relating to the Company's financial statements, accounting practices or internal controls, the concern should be submitted in writing to the chairperson of the audit committee in care of the Company's Secretary at our headquarters address. If the concern relates to the Company's governance practices, business ethics or corporate conduct, the concern likewise should be submitted in writing to the chairperson of the audit committee in care of the Company's Secretary at our headquarters address. If the shareholder is unsure as to which category his or her concern relates, he or she may communicate it to any one of the independent directors in care of the Company's Secretary.

The Company's "whistleblower" policy prohibits the Company or any of its employees from retaliating or taking any adverse action against anyone for raising a concern. If a shareholder or employee nonetheless prefers to raise his or her concern in a confidential or anonymous manner, the concern may be directed to the Office of Technical and Compliance Services at the Company's headquarters or by telephone at 1-866-244-5952. The Vice President for such services or his designee will refer the concern to the compliance committee, or if appropriate, the chairperson of the audit committee who will assure that the matter is properly investigated.

Related Party Transactions

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

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

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

OWNERSHIP OF OUR COMMON SHARES

Common Shares Owned By Management And Certain Beneficial Owners

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

	Common Shares Beneficially Owned As of September 17, 2010	
Name[1]	Number[2]	% of Class[3]
Robert M. Thornton, Jr. Director, Chairman, President and Chief Executive Officer	431,924[4]	5.3
Mark J. Stockslager Chief Financial Officer and Principal Accounting Officer	98,264	1.2
Harry R. Alvis Chief Operating Officer	101,300[5]	1.3
George D. Shaunnessy President, SunLink ScriptsRx, LLC (formerly SunLink Homecare Services, LLC)	81,000[6]	1.0
Jerome D. Orth Vice President, Technical and Compliance Services	33,892	*
Jack M. Spurr, Jr. Vice President, Hospital Financial Operations	20,082[7]	*
Dr. Steven J. Baileys Director	635,404[8]	7.8
Karen B. Brenner Director	231,959[9]	2.9
Gene E. Burleson Director	89,350[10]	1.1
C. Michael Ford Director	79,607[11]	1.0
Michael W. Hall Director	37,707[11]	*
Howard E. Turner Director	265,044[11]	3.3
Christopher H. B. Mills Director	1,287,157[12][13]	15.9
Berggruen Holdings North America Ltd.	704,039[14]	8.7
Directors, Nominees and Executive Officers as a group (13 persons)	3,392,690[15]	40.6

* Less than 1%

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

(2) Information with respect to beneficial ownership is based upon information furnished by each owner unless otherwise indicated. None of the shares beneficially owned by the named officers and directors are the subject of any pledge agreement or arrangement or margin account.

(3) The percent of our outstanding common stock owned is determined by assuming that in each case the person only, or group only, exercises his, her or its rights to purchase all shares of our common stock underlying stock options that are exercisable as of September 17, 2010, or that will become exercisable within 60 days after that date.

(4) Includes 223,384 shares owned by CareVest Capital, LLC ("CareVest"). Mr. Thornton owns 100% of the outstanding voting interests of CareVest.

(5) Includes 1,750 shares that may be acquired under options exercisable within 60 days of September 17, 2010.

(6) Includes 80,000 shares that may be acquired under options exercisable within 60 days of September 17, 2010.

(7) Includes 13,832 shares that may be acquired under options exercisable within 60 days of September 17, 2010.

(8) Includes 29,607 shares that may be acquired under options exercisable within 60 days of September 17, 2010. Also includes 346,249 shares held by Beilihis Investments, LLC ("Beilihis"), which is a private investment firm. Dr. Baileys is the managing member of Beilihis.

(9) Includes 29,607 shares that may be acquired under options exercisable within 60 days of September 17, 2010. Also includes 132, 182 shares held by Fortuna Asset Management, LLC ("Fortuna"), which is an investment advisory firm. Ms. Brenner is the president of Fortuna. Ms. Brenner's ownership information also includes 65,177 shares which are owned by Ms. Brenner and her immediate family and related entities.

(10) Includes 22,107 shares that may be acquired under options exercisable within 60 days of September 17, 2010.

(11) Includes 29,607 shares that may be acquired under options exercisable within 60 days of September 17, 2010.

(12) Includes 4,857 shares that may be acquired under options exercisable within 60 days of September 17, 2010.

(13) Includes aggregate holdings under a joint filing on a Schedule 13D dated December 18, 2006 by North Atlantic Value, LLP, Christopher H. B. Mills, American Opportunity Trust, John W. Gildea, Gildea Management Company and Axia Value Partners (collectively, *"the Group"*). The following information is based solely on such filing. The Group as joint filers disclaims the existence of a "group" under Rule 13d-3. North Atlantic Value, LLP, is a limited liability partnership organized under the laws of England with its principal office and business at Ryder Court, 14 Ryder Street, London SW1Y 6QB England. Trident North Atlantic Fund is an open-ended investment company incorporated in the Cayman Islands with its principal office and business at P.O. Box 309, Ugland House, George Town, Grand Cayman, Cayman Islands. Trident North Atlantic Fund is a publicly held regulated mutual fund. Mr. Mills serves as a director of Trident North Atlantic Fund and North Atlantic Value serves as an investment adviser to Trident North Atlantic Fund. Mr. Mills is a British citizen whose business address is Ryder Court, 14 Ryder Street, London SW1Y 6QB England. Trident Holdings ("Trident Holdings") is an open-ended investment company incorporated in the Cayman Islands with its principal office and business at P.O. Box 1350GT, 75 Fort Street, George Town, Grand Cayman, Cayman Islands. High Tor Limited ("Trident High Tor") is a corporation organized under the laws of the Cayman Islands with its principal office and business at P.O. Box N-4857, Unit No. 2, Cable Beach Court, West Bay Street, Nassau, The Bahamas. American Opportunity Trust is a corporation organized under the laws of England with its principal office and business at Ryder Court, 14 Ryder Street, London SW1Y 6QB England. North Atlantic Smaller Companies Investment Trust ("NASCIT") is an investment limited liability company organized under the laws of England with its principal office and business at Ryder Court, 14 Ryder Street, London SW1Y

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

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

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

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

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

ITEM 1 TO BE VOTED ON BY SHAREHOLDERS

Item 1–Election Of Directors

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

It is the intention of the proxy agents named in the proxy, unless otherwise directed, to vote such proxies for the election of Karen B. Brenner, C. Michael Ford, Howard E. Turner, and Christopher H.B. Mills. Should any of such nominees be unable to accept the office of director, an eventuality which is not anticipated, proxies may be voted with discretionary authority for a substitute nominee or nominees designated by the board of directors.

The board of directors unanimously recommends a vote "FOR" the election of Karen B. Brenner, C. Michael Ford, Howard E. Turner, and Christopher H.B. Mills.

INFORMATION CONCERNING THE BOARD OF DIRECTORS

Identification Of Directors

The following table sets forth certain information about the nominees for election and the directors whose terms of office will continue after the meeting.

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

Directors Whose Term of Office Expires in 2011:	Name and Offices Presently Held with Company	Director Since
Robert M. Thornton, Jr.	Director, Chairman, President and Chief Executive Officer	1996
Dr. Steven J. Baileys	Director	2000
Michael W. Hall	Director	2001
Gene E. Burleson	Director	2003

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

Karen B. Brenner, 58, has been President of Fortuna Asset Management, LLC, an investment advisory firm located in Newport Beach, California, since 2000. Fortuna Asset Management, LLC succeeded to the business of Fortuna Advisors, Inc., which Ms. Brenner formed and operated from 1993 to 2000. From 1996 to 1998 Ms. Brenner served on the Board of Directors of Data Design Labs. From 1984 to 1993, Ms. Brenner was a partner in Allen Brenner, a financial consulting firm. Prior to 1984, Ms. Brenner was a consultant in the health and medical division of Booz Allen Hamilton.

C. Michael Ford, 71, has been the owner and Chairman of the Board of Directors of Montpelier Corporation, a venture capital and real estate holding company, since October 1990. Mr. Ford has been Chief Executive Officer of Newtown Macon, Inc. since November 2003 and was its Chief Financial Officer from

October 2002 to November 2003. Mr. Ford was Chairman of the Board of In Home Health, Inc. from February 2000 to December 2000. Mr. Ford also served as Vice President of Development of Columbia/HCA Healthcare Corporation from September 1994 to September 1997, and was Vice President of Marketing of Meditrust Corp. from October 1993 to September 1994.

Howard E. Turner, 68, has been a partner in the law firm of Smith, Gambrell & Russell, LLP, since 1971, where he is a member of the firm's executive committee. Mr. Turner was a director of Avlease, Ltd., a lessor of large commercial aircraft, and currently serves as an officer and director of Historic Motorsports Holdings, Ltd. Mr. Turner provides legal services to the Company through the law firm, Smith, Gambrell & Russell, LLP, as requested by the Company.

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

Robert M. Thornton, Jr., 61, has been Chairman and Chief Executive Officer of the Company since September 10, 1998, President since July 16, 1996 and was its Chief Financial Officer from July 18, 1997 through August 31, 2002. From October 1994 to the present, Mr. Thornton has been a private investor and, since March 1995 has been Chairman and Chief Executive Officer of CareVest Capital, LLC, a private investment and management services firm. Mr. Thornton was a director of and held various executive offices with Hallmark Healthcare Corporation from October 1989 until Hallmark's merger with Community Health Systems, Inc. in October 1994.

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

Michael W. Hall, 61, is a private investor and was Chairman and Chief Executive Officer of Pyramed Health System, Inc., a healthcare consulting firm, from August 1996 through March 2001. From April 1991 to August 1996, Mr. Hall was Chief Operating Officer and Executive Vice President of Southern Health Management Corporation, a healthcare management company specializing in rural healthcare. Prior to its sale to NetCare Health Systems, Inc., in 1996, Southern Health Management Corporation owned three of SunLink's seven current hospitals.

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

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

Director Qualifications

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

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

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

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

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

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

Board Meetings

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

Committees Of The Board Of Directors — Overview

Membership On Board Committees

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

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

C = Chairperson

● = Member

Audit Committee

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

- selecting the Company's independent registered public accounting firm and evaluating the independence, performance and continued retention of such accounting firm;
- reviewing the Company's auditing, accounting and financial reporting processes generally;
- reviewing the Company's systems of internal controls regarding finance, accounting, legal and compliance that management and the board have established;

- reviewing the integrity of the financial statements and other financial information provided by the Company to the Company's shareholders, the general public and the Securities and Exchange Commission ("SEC") including:
  - reviewing and discussing with management and the independent registered public accounting firm the financial statements to be included in our annual report on Form 10-K for filing with the SEC;
  - discussing with the independent registered public accounting firm the conduct of the audit, the adequacy and effectiveness of our accounting and financial controls and the written disclosures required by Independence Standards Board Standard No. 1 regarding their independence;
  - meeting separately with the independent registered public accounting firm and with our internal auditors, as well as our management, to discuss the results of their audits; and
  - reviewing and discussing with management and the independent registered public accounting firm our interim financial statements as included in our quarterly reports;
- reviewing the potential engagement of our independent registered public accounting firm for non-audit services prior to any such engagement and approving any such engagement;
- reassessing annually the adequacy of the audit committee charter and recommending any proposed changes to the board for approval;
- reporting to our board of directors the conclusions with respect to the matters that the audit committee has considered; and
- examining such other areas or activities consistent with the audit committee charter, the Company's Code of Regulations and governing law as the audit committee or board deem appropriate.

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

All three (3) members of the audit committee are independent as defined in Section 803(A) of the NYSE Amex Company Guide and Rule 10A-3 of the Securities Exchange Act of 1934. The board has also determined that Mr. Ford meets the requirements for being an "audit committee financial expert" pursuant to Section 407 of the Sarbanes-Oxley Act of 2002. Our audit committee charter is available on our website at *www.sunlinkhealth.com*.

Compensation Committee

Composition; Independence; Compensation Committee Interlocks And Insider Participation

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

Compensation Review Process; And Management Participation In Compensation Determinations

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

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

Responsibilities

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

- Develops guidelines and, on an annual basis, reviews the compensation and performance of the Company's senior executive officers; reviews and approves corporate goals relevant to the compensation of the chief executive officer; evaluates the chief executive officer's performance in light of these goals and objectives; sets the chief executive officer's compensation based on such evaluation; evaluates the performance of the Company's senior executive officers and approves their annual compensation; and produces an annual report on executive compensation for inclusion in the Company's annual proxy statement, in accordance with all applicable rules and regulations;
- Makes recommendations to the board with respect to incentive compensation plans and equity-based plans, and administers such plans by establishing criteria for granting of awards to the Company's officers and other employees and reviews and approves the granting of awards in accordance with such criteria;
- Reviews and approves plans for managerial succession of the Company;
- Reviews director compensation levels and practices, and recommend to the board, from time to time, changes in such compensation levels and practices (including retainers, meetings fees, committee fees, stock options and other similar items as appropriate);
- Annually reviews and assesses the adequacy of the Compensation Committee Charter and recommends any proposed changes to the board for approval; and
- Performs such other activities consistent with the Compensation Committee Charter, the Company's Code of Regulations and governing law as the committee or the board deems appropriate.

Executive Committee

The executive committee is empowered to exercise all of the authority of the board of directors except as to matters not delegable to a committee under the General Corporation Law of Ohio.

Strategic Planning Committee

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

- Recommends for board approval actions that address the Company's strategic alternatives, including, but not limited to solicited and unsolicited takeover offers, possible acquisition targets, asset sales or major purchases;
- Discusses with Company's regular outside counsel or special counsel any legal matters that could reasonably be expected to have a material impact on the Company's long-term strategies;
- Annually evaluates performance of the committee; and
- Annually reviews and assesses the committee charter and submits recommended changes to the board.

The strategic planning committee charter is available on our website at *www.sunlinkhealth.com*.

Nomination Procedures And Shareholder Nominations

The board does not have a nominating committee but has adopted a nominating resolution which provides that the Company believes it to be in its best interest and the best interest of its shareholders to authorize the entire board to identify and nominate, by majority vote of the entire board of directors then in office, directors to serve on the Company's board so long as, pursuant to NYSE Amex rules, director nominees so selected are approved by a majority of the independent directors and, when vacancies occur on the board, the board shall actively seek individuals qualified to become board members based on business experience, professional expertise, industry experience and geographic representation. Shareholders who wish to submit nominees for election at an annual or special meeting of shareholders should follow the procedure generally described in *Requirements, Including Deadlines, For Submission Of Proxy Proposals, Nomination Of Directors And Other Business Of Shareholders* on page 47 of this proxy statement and more particularly, in the Company's Code of Regulations. The board of directors applies the same standards in considering candidates submitted by shareholders as it does in evaluating candidates submitted by members of the board of directors. The board does not have a separate policy with regard to the consideration of candidates recommended by shareholders other than the process provided in the nominating resolution.

COMPENSATION OF DIRECTORS FOR FISCAL YEAR 2010

Management Directors

We do not pay directors who are also our employees any additional compensation for serving as a director, other than customary reimbursement of expenses.

Non-Management Directors

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

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

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

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

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

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

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

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

(1) Includes grants of options under the Company's 2001 Outside Directors' Stock Ownership and Stock Option Plan and the 2005 Equity Incentive Plan.

(2) If we grant stock awards in the future we will report the named director holding unvested securities, the vesting date for such securities and the number of securities vesting on the applicable date.

EXECUTIVE OFFICERS

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

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

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

Biographical information for our non-director executive officers is set forth below:

Current Executive Officers

Mark J. Stockslager has been SunLink's Chief Financial Officer since July 1, 2007. He was interim Chief Financial Officer from November 6, 2006 until June 30, 2007. He has been the Principal Accounting Officer since March 11, 1998 and was Corporate Controller from November 6, 1996 to June 4, 2007. He has been associated continuously with our accounting and finance operations since June 1988 and has held various positions, including Manager of U.S. Accounting, from June 1993 until November 1996. From June 1982 through May 1988, Mr. Stockslager was employed by Price Waterhouse & Co.

Harry R. Alvis has been Chief Operating Officer of SunLink since September 1, 2002, and Senior Vice President of Operations of SunLink Healthcare LLC since February 1, 2001. Mr. Alvis provided turn-around operational consulting services for New American Healthcare Corp. from March 2000 through January 2001. From August 1997 through August 1999, Mr. Alvis was Chief Executive Officer of River Region Health Systems in Vicksburg, Mississippi, a healthcare facility owned by Quorum Health Group, Inc. From August 1995 through August 1997, Mr. Alvis was the Chief Executive Officer of Greenview Hospital in Bowling Green, Kentucky, a healthcare facility owned by Hospital Corporation of America. Mr. Alvis was the Chief Executive Officer of Pinelake Medical Center in Mayfield, Kentucky from November 1987 through August 1995. Pinelake was a healthcare facility owned by HealthTrust, Inc.

Jerome D. Orth was Vice President, Technical & Compliance Services of SunLink from February 1, 2001 until he separated from his employment with the Company on October 1, 2010. See the Company's Current Report on form 8-K filed October 7, 2010. From January 1995 through January 2001, Mr. Orth was Vice President of Hospital Financial Operations for ValueMark Healthcare Systems, Inc., a privately-held owner-operator of psychiatric hospitals. From February 1987 through October 1994, Mr. Orth held various positions with Hallmark Healthcare Corporation, including Executive Director, Hospital Financial Management and Executive Director, Management Information Systems. Prior to 1987, Mr. Orth spent 12 years in various accounting, third party reimbursement and management positions with Hospital Corporation of America.

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

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

EXECUTIVE COMPENSATION

Compensation Process

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

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

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

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

Authority To Utilize Compensation Consultants

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

Compensation Disclosure And Analysis

Compensation Philosophy

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

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

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

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

- *Shareholders*: aligning our compensation programs with internal financial objectives for revenue and cost control and growing our business both internally and through acquisitions;
- *Patients, Physicians and Communities*: increasing patient and physician satisfaction, improving patient and physician service, and expanding our service offerings in the communities we serve; and
- *Employees*: identifying, recruiting, developing and retaining a highly engaged, diverse workforce of exceptional talent that achieves our corporate and healthcare delivery goals, and superior patient service in an atmosphere of high job satisfaction and performance.

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

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

Objectives and Goals

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

1. *Accountability Through Measurable Goals*, including:

- Growth and Expense Control Measures, which align our compensation programs with internal financial objectives for revenue, growth, and cost control and growing our business both internally and through acquisitions;
- Patient, Physician, and Community Satisfaction Measures, which align our compensation programs with performance on objective medical benchmarks, and operational goals including length of stay, patient and physician satisfaction measures, as well as the company's broader goals of continually improving employee relations, customer service, increasing customer satisfaction, expanding service offerings in communities served by the company;
- Employee Recruitment and Retention Measures with a goal of identifying, recruiting, developing and retaining a highly engaged, diverse workforce of exceptional talent that achieves our corporate and healthcare delivery goals, and superior patient service in an atmosphere of high job satisfaction and performance.

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

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

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

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

Use Of Compensation Consultants

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

Major Compensation Components

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

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

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

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

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

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

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

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

(a) Evaluation and execution of acquisition opportunities;

(b) Management development;

(c) Formulation of a succession plan for the Company's executive officers;

(d) Improvement in the Company's common stock price; and

(e) Implementation of financial controls over the recently-acquired specialty pharmacy segment.

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

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

Short-Term Incentive Plan Participant (Name and Position)	Award Percentage Subject to Objective/ Subjective Criteria (%)[1]	Target Incentive Award as a Percentage of Base Salary (%)	Actual Annual Incentive Award ($)	Actual Annual Incentive Award as a Percentage of Target (%)	Actual Incentive Award as a Percentage of 2010 Base Salary (%)
Robert M. Thornton, Jr., Director, Chairman of the Board of Directors, President and Chief Executive Officer	0/100	N/A	0	0	0
Mark J. Stockslager, Chief Financial Officer and Principal Accounting Officer	0/100	N/A	0	0	0
Harry R. Alvis, Chief Operating Officer	0/100	N/A	0	0	0
Jerome D. Orth, Vice President, Technical and Compliance Services	0/100	N/A	0	0	0
Jack M. Spurr, Jr., Vice President, Hospital Financial Operations	0/100	N/A	0	0	0
George D. Shaunnessy, President, SunLink ScriptsRx, LLC	0/100	N/A	0	0	0

(1) Under the Executive Bonus Plan for fiscal 2010, the bonus opportunity for fiscal 2010 was based 100% on certain un-weighted discretionary criteria.

Long-Term Incentives. While base salary and short-term incentives are primarily designed to compensate current and past performance, the primary goal of the long-term incentive compensation program is to directly link management compensation with the long-term interests of the shareholders through the award of equity based compensation. Historically, the compensation committee has not utilized any percentage or relative measure of valuation to establish any relationship or allocation between equity-based and non-equity-based compensation. At June 30, 2010, the Company had available 437,051 shares available for future issuance under its 2005 Equity Incentive Plan.

- *Types Of Equity Awards And Criteria For Award Type Selection*. The Company historically used stock options to align executive officer's interests with those of our shareholders. Options are intended to provide strong incentives for superior long-term performance. In the future, the compensation committee may, at its discretion and subject to availability under the plan, grant awards to executive officers through this plan.
- *Criteria For Award Amounts*. In considering whether to grant equity incentives for fiscal 2010, the committee looked at the availability of shares under the plan and made limited awards in 2010. When shares have been available for issuance under the Company's equity plans, the committee historically has looked at a variety of factors, with no formal weighting assigned to any single factor or group of factors. In determining the size of equity awards, the committee assesses the current value of previous awards; however, it has not historically given any weight to accumulated wealth in evaluating whether future awards are merited. The committee also evaluated equity incentive awards made by our competitors (both individually and as part of a comparative compensation analysis), historical levels of the Company's equity incentives, the extent to which value under the award was subject to risk, whether the award vehicle has intrinsic value and the need to motivate and retain persons eligible to

participate under the Company's plans. The committee may also consider the prospects for equity appreciation in light of depressed equity valuations, the current macroeconomic environment, and the prospects for economic recession or growth in the United States, in general, and the healthcare industry in particular.

Vesting And Holding Periods For Equity Incentive Compensation. Grants of stock options are exercisable at such times and subject to such terms and conditions as the committee may, in its sole discretion, specify in the applicable award agreement. However, as a means to encourage long-term thinking and encourage continued employment with us, the Company's equity awards historically have been subject to a multi-year vesting period. The committee anticipates that future awards will be subject to multi-year vesting, most likely over three year periods; although vesting and holding periods may be examined as part of a future compensation review. Currently, the Company does not impose minimum equity ownership requirements for equity compensation awarded to its executive officers, nor does it require any continued ownership of the securities issued pursuant to such awards after vesting. Historically, the Company's executive officers have held substantially all shares acquired by exercise of options, although there can be no assurance that they will continue to do so in the future. Because there is no mandatory holding policy, executive officers may sell shares issuable upon the exercise of options for any reason, including paying tax liabilities and persons who cease to be executive officers may elect to sell some or all of their holdings.

In considering whether to grant equity incentives for the year ending June 30, 2010, the compensation committee looked at a variety of factors, with no formal weighting assigned to any single factor or group of factors. In determining to not make, any awards for such period the compensation committee focused on the company's recent financial and operational performance and the discretionary criteria evaluated in connection with the short term incentive plan.

Other Benefits

All of the company's executives are eligible to participate in the company's health care, insurance and other welfare and employee benefit programs, which generally are the same for all eligible employees, including SunLink's executive officers.

- *401(k) savings plan*. SunLink offers tax advantaged savings benefits to its employees through an employee-funded 401(k) savings plan with an annual discretionary company "match" as determined by SunLink's board of directors. The 401(k) savings plan provides a long-term savings vehicle that allows for pretax contributions by an employee and tax-deferred earnings. Employees may generally contribute up to 100% of eligible annual pay to the 401(k) savings plan, not to exceed the annual IRS limit (generally $16,500 for 2010). Employees attaining at least 50 years of age by the end of 2009 were eligible to make 401(k) catch-up contributions to a maximum of $5,500. Employees direct their own investments in the 401(k) savings plan. The benefits under such tax-qualified savings plans for SunLink's executive officers are the same as those available for other eligible employees. Individual participant balances reflect a combination of: (1) a differing annual amount contributed by the company or the employee; (2) the annual contributions and/or deferred amounts being invested at the discretion of the employee (the same investment choices are available to all participants); and (3), as in (2), the continuing reinvestment of the investment returns until the accounts are paid out. This means that similarly situated employees, including SunLink's executive officers, may have materially different account balances because of a combination of factors: the number of years that the person has participated in the plan; the amount of money contributed or compensation deferred at the election of the participant from year to year; and the investments chosen by the participant. The 401(k) savings plan does not promise any guaranteed minimum returns or above-market returns; the investment returns are dependent upon actual investment results. Accordingly, when determining annual compensation for executive officers, the compensation committee does not consider the individuals' retirement plan balances and payout projections.

Equity Award Timing

Our current policy with respect to equity awards to key employees, including our executive officers (but excluding grants to newly hired employees), is that equity awards occur at the time of the board of directors meeting to be effective as of a specified date no sooner than 48 hours after earnings are released.

Use Of Employment And Severance Agreements

In the past, the committee has determined that competitive considerations merited the use of employment contracts or severance agreements for certain members of senior management. Currently, Messrs. Thornton, Alvis and Shaunnessy are employed pursuant to employment contracts, while Messrs. Stockslager, Orth and Spurr are employed pursuant to employment letters. Messrs. Thornton, Alvis, and Shaunnessy's agreements and Stockslager's letter include severance benefits. The Company's severance benefits for Messrs. Thornton, Alvis, Shaunnessy and Stockslager take effect in connection with severance other than for death, disability or cause. Additionally, Messrs. Thornton, Alvis and Stockslager also get severance benefits in connection with a "change in control". We have designed these severance benefits to help keep employees focused on their jobs, especially during the uncertainty that accompanies a change in control, to preserve benefits after a change in control transaction, and to help us attract and retain key talent. Compensation criteria for officers employed pursuant to employment agreements with severance benefits may be more difficult to adjust on an annual basis. For more information on employment or severance contracts please refer to *Employment Contracts, Termination Of Employment And Change-In-Control Arrangements* beginning on page 36 of these proxy materials.

Change- In-Control Compensation

Provisions for additional or continued compensation in connection with a change in control of the Company are located in two areas: (1) specifically in the Company's employment agreements with Messrs. Thornton, Alvis and Shaunnessy and Mr. Stockslager's letter as discussed above; (2) and, more generally, in the Company's equity incentive plans and/or award agreements thereunder, whereby the committee administering such plans and awards has the power to accelerate the vesting of such awards upon a change in control or where such plans or awards provide for automatic vesting in the event of such change, whether merely upon the occurrence of such event or upon the occurrence of such event and an adverse occurrence for the participant, such as termination of employment.

The change-in-control provisions set forth in the Company's employment agreements employ several approaches to cause a triggering event. Change-in-control benefits are payable in the ordinary course upon the occurrence of the event. Payment of benefits is not restricted only to situations involving the involuntary termination of the officer afforded such change in control protection. Instead, benefits are payable not only in the case of involuntary terminations but also where the executive, in connection with or within one year of the transaction, elects to terminate his employment. The committee believes this approach helps to ensure the continued availability of the services of the executive during the times of uncertainty inherent with any change in control, including especially in the immediate post-event period under new ownership and/or management, while at the same time limiting windfall benefits by making the benefits payable only after a termination of employment. By providing post-event coverage, the executive is encouraged to remain in the employ of the Company without the need to be concerned about a post-event restructuring which may result in a material diminishment of the executive's duties or post-event management or ownership changes with respect to which the executive may have concerns or reservations.

The definition of change in control is intended to be broad in scope and to capture most, if not all, of the scenarios where an actual change in control has occurred. Automatic vesting under the terms of our equity compensation plans, if any, is based on market practices and recognition that the value of equity compensation can be radically affected by a change in control, whether or not existing management is retained.

In connection with providing severance benefits to the Company's other executive officers, the committee has evaluated, and expects to continue to examine, the amounts which could be realized by persons granted such rights upon a change in control.

Internal Equity

Internal equity has generally been evaluated based on a subjective assessment of the relative contributions of the members of the management team. For the year ended June 30, 2010, the committee did not undertake any formal audit or similar analysis of compensation equity with respect to Mr. Thornton relative to the other members of the management team or with respect to the management team relative to the company's employees generally. However, the committee believes that the relative difference between the compensation of the company's chairman and chief executive officer and the compensation of the company's other executives is not inconsistent with the differences found in the healthcare industry group and the market for executive level personnel for similarly sized public companies.

Wealth Accumulation

The compensation committee does not engage in a specific process which attempts to justify compensation levels based on wealth accumulation. The committee does not analyze proposed annual compensation for any individual versus the accrued wealth of such individual, or the accrued wealth of persons with similar job titles at other companies. The committee believes that no such meaningful analysis can be performed due to, among other things, disparate actual duties versus job titles, different employment histories, different life experiences or needs or social inequalities. As previously noted, the committee does evaluate from time to time whether compensation levels are consistent with the company's goal of being a leader among rural and exurban healthcare companies and maintaining or attracting superior executive talent appropriate to such goal.

Recapture And Forfeiture Policies

Historically the Company has not had formal policies with respect to the adjustment or recapture of performance-based awards where the financial measures on which such awards are based, or to be based, are adjusted for changes in reported results such as, but not limited to, instances where the Company's financial statements are restated. The committee does not believe that repayment generally should be required where the plan participant has acted in good faith and the errors are not attributable to the participants' gross negligence or willful misconduct. However, the committee has in the past and may in the future take such errors into account, including whether the conduct was negligent or without fault, in setting and awarding current or future compensation, including discretionary compensation. The committee believes the Company has or will have available negotiated or legal remedies in many situations. Furthermore, the committee may elect to take into account factors such as the timing and amount of any financial restatement or adjustment, the amounts of benefits received and the clarity of accounting requirements leading to any restatement in fixing of current or future compensation of the responsible officer or officers.

Deductibility Of Compensation And Related Tax Considerations

As one of the factors in its review of compensation matters, the committee considers the anticipated tax treatment to the Company and to the executives of various payments and benefits.

- *Section 162(m)*. Section 162(m) of the Internal Revenue Code of 1986, as amended (the "*Code*") generally limits to $1 million the amount that a publicly held corporation is allowed each year to deduct for the compensation paid to each of the corporation's chief executive officer and the corporation's four most highly compensated executive officers, other than the chief executive officer. However, "performance-based" compensation is not subject to the $1 million deduction limit. In general, to qualify as performance-based compensation, the following requirements must be satisfied: (i) payments must be computed on the basis of an objective, performance-based compensation standard

determined by a committee consisting solely of two or more "outside directors"; (ii) the material terms under which the compensation is to be paid, including the business criteria upon which the performance goals are based, and a limit on the maximum amount which may be paid to any participant pursuant to any award with respect to any performance period, are approved by a majority of the corporation's shareholders; and (iii) the committee certifies that the applicable performance goals were satisfied before payment of any performance-based compensation is made.

Although the Company's stock option plans generally have been structured with the goal of complying with the requirements of Section 162(m), and the compensation committee believes stock options awarded thereunder should qualify as "performance-based" compensation exempt from limitations on deductibility under Section 162(m), the deductibility of any compensation has not been a condition to any compensation decision. Based on current compensation levels, the Company does not expect its ability to deduct executive compensation to be limited by operation of Section 162(m).

In a 2008 Revenue Ruling, the IRS announced a significant shift in its interpretation of Section 162(m) relating to the performance-based compensation exception to the $1 million dollar limitation on tax deductible compensation paid by publicly held companies. The regulations under Section 162(m) specifically allow payment of performance-based compensation upon death, disability, or a change of control. Using the reasoning that it was analogous to death, disability or a change of control, the IRS had concluded in previous private letter rulings that performance-based payments made as a result of involuntary terminations by the employer without cause or by the executive for good reason did not fail to qualify as Section 162(m) performance-based compensation. This meant that the performance-based payment was still deductible under Section 162(m), even though the performance goal had not been met at the time of payment for these types of events (e.g. a payment at target upon termination for good reason). However, according to the new Revenue Ruling, this rationale is no longer being used by the IRS in analyzing performance-based compensation.

The new Revenue Ruling 2008-13 published in February 2008 states that if performance-based pay could become due under a plan or agreement upon a termination without cause, for good reason, or as a result of voluntary retirement, and would be payable regardless of whether performance-based goals are met, then any payment from such plan or agreement will not qualify as Section 162(m) performance-based compensation and will not be eligible for exclusion from the Section 162(m) $1 million compensation limit. The ruling applies to performance periods beginning after January 1, 2009, and compensation arrangements entered into, renewed or extended after February 21, 2008.

Under the company's executive benefits agreement, certain terminations following a change of control give rise to a payment obligation based on the amount of the officer's salary and prior bonus amounts. Because such payment is not provided for under the executive incentive compensation plan and is not based on amounts for which the executive is eligible in the current year, the company believes that such payment will not result in any disqualification of the executive incentive compensation plan, whose performance-based cash compensation payments will continue to be excluded from compensation for purposes of calculating whether or not the $1 million deductibility limit has been achieved.

Due to interpretations and changes in the tax laws, some types of compensation payments and their deductibility depend on the timing of an executive's vesting or exercise of previously granted rights and other factors beyond the compensation committee's control which could affect the deductibility of compensation.

The compensation committee will continue to consider the impact of Section 162(m) when designing compensation programs, and in making compensation decisions affecting the Company's Section 162(m) covered executives, if any. The committee expects the majority of future stock awards will be excludable from the Section 162(m) $1 million limitation on deductibility, other than in the case of certain specified events including a change in control, since vesting of any such awards will likely be tied to performance-based criteria, or be part of compensation packages which are less than $1 million. Nonetheless, the compensation committee

believes that in certain circumstances factors other than tax deductibility are more important in determining the forms and levels of executive compensation most appropriate and in the best interests of the Company and its shareholders. Accordingly, we may award compensation in excess of the deductibility limit, with or without requiring a detailed analysis of the estimated tax cost of non-deductible awards to the Company. Given the dynamic and rapidly changing healthcare industry and SunLink's business, as well as the competitive market for outstanding leadership talent, the compensation committee believes it is important to retain the flexibility to design compensation programs consistent with its compensation philosophy for the Company, even if some executive compensation is not fully deductible.

- *Section 280G*. Code Section 280G generally denies a deduction for a significant portion of certain compensatory payments made to corporate officers, certain shareholders and certain highly-compensated employees if the payments are contingent on a change in control of the employer and the aggregate amounts of the payments to the relevant individual exceed a specified relationship to that individual's average compensation from the employer over the preceding five years. In addition, Code Section 4999 imposes on that individual a 20% excise tax on the same portion of the payments received for which the employer is denied a deduction under Section 280G. In determining whether to approve an obligation to make payments for which Section 280G would deny the Company a deduction or whether to approve an obligation to indemnify (or "gross-up") an executive against the effects of the Section 4999 excise tax, the committee has adopted an approach similar to that described above with respect to payments which may be subject to the deduction limitations of Section 162(m).

Duration Of Benefits

The duration of benefits for our executive officers is based on a variety of factors including the purpose of the benefit, historical expectations, competitive factors and the cost of providing the benefit. Historically, we have provided no lifetime benefits.

Chief Executive Officer Compensation

Except as noted, the compensation policies described in this report apply equally to the compensation of the Chief Executive Officer.

Committee Conclusions

Attracting and retaining talented and motivated management and employees is essential to create long-term shareholder value. Offering a competitive, performance-based compensation program helps to achieve this objective by aligning the interests of the Company's executive officers with those of shareholders. The committee believes that SunLink's 2010 compensation program met these objectives. Likewise, based on our review, the committee finds the total compensation (and, in the case of the severance and change-in-control scenarios, the potential payouts) to the Company's named executive officers in the aggregate to be reasonable and not excessive.

Compensation Committee And Management Reviews And Authorization

The compensation committee has reviewed the above Compensation Disclosure and Analysis with the Company's Chief Executive Officer and Chief Financial Officer. Based on a review of this Compensation Disclosure and Analysis and discussion between the compensation committee and the Company's Chief Executive Officer and Chief Financial Officer, the compensation committee has recommended the board include the Compensation Disclosure and Analysis in this proxy statement.

Authorization

This report has been submitted by the compensation committee:

Gene E. Burleson (Chairperson) Dr. Steven J. Baileys Karen B. Brenner

Other Executive Compensation Information

The following sections of this Proxy Statement set forth compensation information relating to the Chief Executive Officer, Chief Financial Officer and the four most highly compensated executive officers of the Company, other than the Chief Executive Officer and Chief Financial Officer whose compensation exceeds $100,000 per year (if any) (collectively, the "*named executive officers*"), for the fiscal year ended June 30, 2010.

The following table shows the compensation awarded or paid by SunLink for services rendered for the fiscal years ended June 30, 2008, 2009 and 2010 to the named executive officers.

Summary Compensation Table

Name and Principal Position	Year	Salary ($)	Bonus ($)	Stock Awards ($)	Option Awards ($)[1]	Non-Equity Incentive Plan Compensation	Change in Pension Value and Nonqualified Deferred Compensation Earnings ($)	All Other Compensation ($)[2]	Total ($)
Robert M. Thornton, Jr.	2010	330,000	—	—	—	—	—	420[3]	330,420
Chairman, President and	2009	339,063	—	—	—	—	—	3,180[4]	342,243
Chief Executive Officer	2008	335,000	—	—	178,500[5]	140,700[6]	—	3,818[7]	658,018
Mark J. Stockslager	2010	173,250	—	—	—	—	—	420[8]	173,670
Chief Financial Officer and	2009	173,250	—	—	—	—	—	2,460[9]	175,710
Principal Accounting Officer	2008	157,500	—	—	51,000[10]	47,250[6]	—	2,959[11]	258,709
Harry R. Alvis	2010	250,100	—	—	—	—	—	420[12]	250,520
Chief Operating Officer	2009	250,100	—	—	—	—	—	2,310[13]	252,410
	2008	244,000		—	102,000[14]	134,688[15]	—	3,818[7]	484,506
George D. Shaunnessy[16]	2010	285,000	—	—	—	—	—	395[17]	285,395
President, SunLink	2009	285,000	—	—	—	—	—	395[18]	285,395
ScriptsRx, LLC	2008[19]	55,173	100,000[20]	—	269,000[21]	—	—	45[22]	424,218
Jerome D. Orth[23]	2010	172,000	—	—	—	—	—	205[24]	172,205
Vice President, Technical	2009	165,500	—	—	—	—	—	1,372[25]	166,872
and Compliance Services	2008	159,542	—	—	5,100[26]	54,882	—	2,730[27]	222,254
Jack M. Spurr, Jr.	2010	171,258	—	—	—	—	—	205[28]	171,463
Vice President, Hospital	2009	166,675	—	—	5,020[29]	—	—	348[30]	172,043
Financial Operations	2008	161,000	—	—	20,400[31]	59,248	—	2,959[32]	243,607

(1) As disclosed in Note 2 of Notes to Consolidated Financial Statements in the Company's Form 10-K for 2010, the Company records share-based compensation expense for share options issued in accordance with the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 718-10, *Compensation — Stock Compensation* ("ASC 718-10"). The fair value of the share options is estimated using the Black-Scholes option pricing model and the compensation expense is recognized for financial reporting purposes in the periods in which the share options vest. However, for purposes herein, the total fair value of the share options is presented.

(2) In fiscal 2008 all other compensation consisted of medical, dental, life and long-term disability insurance premiums paid over what is generally available to all employees and 401k contributions made by the Company. On October 1, 2007 the Company changed its policy of paying 100% of the medical and dental insurance premiums for executive officers to paying only 80% of the medical and dental insurance premiums, which is the same benefit provided to all salaried employees. In fiscal 2009 and 2010 all other compensation consisted solely of life and long-term disability insurance premiums paid above those premiums which are generally paid for all employees and 401k contributions made by the Company.

(3) Includes $420 in life insurance premium payments.

(4) Includes $420 in life insurance premium payments and the remainder in 401k matching contributions.

(5) In fiscal 2008, Mr. Thornton was awarded 70,000 options for Company stock with an exercise price of $8.00. These options vested one-fourth on September 24, 2008 and were scheduled to vest one-fourth on September 24, 2009, one-fourth on September 24, 2010 and one-fourth on September 24, 2011. Mr. Thornton surrendered both vested and unvested options on November 12, 2008 in connection with his participation in the 2009 executive bonus plan.

(6) The compensation award was based exclusively on the formula element of the incentive plan and was conditioned on Messrs. Thornton and Stockslager's agreement to use not less than 30% of the award for the purpose of exercising in-the-money options to purchase shares of the Company.

(7) Includes $576 in life insurance premium payments, $542 in medical and dental insurance premium payments and the remainder in 401k matching contributions.

(8) Includes $420 in life insurance premium payments.

(9) Includes $420 in life insurance premium payments and the remainder in 401k matching contributions.

(10) Mr. Stockslager was awarded 20,000 options to purchase Company stock at $8.00 per share. Such options were scheduled to vest one-fourth annually through 2011. These options were surrendered on November 12, 2008 by Mr. Stockslager in connection with his participation in the 2009 executive bonus plan.

(11) Includes $576 in life insurance premium payments, $763 in medical and dental insurance premium payments and the remainder in 401k matching contributions.

(12) Includes $420 in life insurance premium payments.

(13) Includes $420 in life insurance premium payments and the remainder in 401k matching contributions.

(14) Mr. Alvis was awarded 40,000 options to purchase Company stock at $8.00 per share. Such options were scheduled to vest one-fourth annually through 2011. These options were surrendered on November 12, 2008 by Mr. Alvis in connection with his participation in the 2009 executive bonus plan.

(15) The payment of the incentive compensation award was conditioned on Mr. Alvis' agreement to use not less than 30% of the award for the purpose of exercising in-the-money options to purchase shares of the Company.

(16) George D. Shaunnessy was President of SunLink ScriptsRx, LLC (formerly SunLink Homecare Services, LLC) from April 22, 2008 until October 1, 2010. Pursuant to the terms of his employment agreement, Mr. Shaunnessy will separate from his employment with the Company effective October 30, 2010.

(17) Includes $395 in life insurance premium payments.

(18) Includes $395 in life insurance premium payments.

(19) Mr. Shaunnessy was not employed during fiscal 2007 and part of fiscal 2008. Mr. Shaunnessy started employment with the Company on April 22, 2008.

(20) The bonus was paid to Affiliated Management Services, Inc., where Mr. Shaunnessy is the Managing Partner and CEO, for work performed, prior to Mr. Shaunnessy's employment with the Company, in connection with the successful acquisition of Carmichael's Cashway Pharmacy, Inc.

(21) Mr. Shaunnessy was awarded 100,000 options to purchase Company stock at $5.86 per share. Such options vested 40,000 on April 22, 2008, 20,000 on April 22, 2009 and 20,000 on April 22, 2010. Mr. Shaunnessy, pursuant to the terms of his employment agreement, will forfeit the remaining 20,000 when he leaves the Company on October 30, 2010. Mr. Shaunnessy was also granted 100,000 options to purchase Company stock at $8.00 per share. Such options were scheduled to vest one-fifth annually through 2013. These options were surrendered on November 12, 2008 by Mr. Shaunnessy in connection with his participation in the 2009 executive incentive plan.

(22) Includes $45 in life insurance premium payments.

(23) Jerome D. Orth was Vice President, Technical & Compliance Services of SunLink from February 1, 2001 until he separated from his employment with the Company on October 1, 2010.

(24) Includes $205 in life insurance premium payments.

(25) Includes $195 in life insurance premium payments and the remainder in 401k matching contributions.

(26) Mr. Orth was awarded 2,000 options to purchase Company stock at $8.00 per share. Such options were scheduled to vest one-fourth annually through 2011. These options were surrendered on November 12, 2008 by Mr. Orth in connection with his participation in the 2009 executive incentive plan.

(27) Includes $307 in life insurance premium payments, $542 in medical and dental insurance premium payments and the remainder in 401k matching contributions.

(28) Includes $205 in life insurance premium payments.

(29) Mr. Spurr was awarded 2,000 options to purchase Company stock at $2.51 per share. Such options vested one-third on September 22, 2009, one-third on September 22, 2010 and will vest one-third on September 22, 2011.

(30) Includes $198 in life insurance premium payments and the remainder in 401k matching contributions.

(31) Mr. Spurr was awarded 8,000 options to purchase Company stock at $8.00 per share. Such options were scheduled to vest one-fourth annually through 2011. These options were surrendered on November 12, 2008 by Mr. Spurr in connection with his participation in the 2009 executive incentive plan.

(32) Includes $312 in life insurance premium payments, $763 in medical and dental insurance premium payments and the remainder in 401k matching contributions.

Grants Of Plan-Based Awards In Last Fiscal Year

The following table shows information about plan-based awards during fiscal 2010 for the named executive officers.

Name	Grant Date	Approval Date	Estimated Future Payouts Under Non-Equity Incentive Plan Awards			Estimated Future Payouts Under Equity Incentive Plan Awards [1]			All Other Stock Awards: Number of Shares of Stock or Units (#)	All Other Option Awards: Number of Securities Underlying Options (#)	Exercise or Base Price of Option Awards ($/Sh)
			Threshold ($)	Target ($)	Maximum ($)	Threshold (#)	Target ($)	Maximum (#)			
Robert M. Thornton, Jr.	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Mark J. Stockslager	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Harry R. Alvis	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
George D. Shaunnessy	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Jerome D. Orth	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Jack M. Spurr, Jr.	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

(1) The Company has not granted any awards under equity incentive plans the vesting of which is contingent upon the achievement of any performance-based criteria. Vesting of Company awards is generally based on continued service and the passage of time, subject to acceleration upon the occurrence of various events.

Outstanding Equity Awards At Fiscal Year-End

The following table provides information with respect to the common stock that may be issued upon the exercise of options and other awards under the Company's existing equity compensation plans as of June 30, 2010.

	Option Awards					Stock Awards			
Name	Number of Securities Underlying Unexercised Options (#)[1] Exercisable	Number of Securities Underlying Unexercised Options (#)[1] Unexercisable[2]	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options (#)	Option Exercise Price ($)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested ($)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested ($)
Harry R. Alvis	1,750	—	—	$3.00	08/24/2010	—	—	—	—
	1,750	—	—	$3.00	08/24/2011	—	—	—	—
George D. Shaunnessy	80,000	20,000	—	$5.86	04/21/2015	—	—	—	—
Jack M. Spurr, Jr.	6,250	—	—	$2.50	06/26/2011	—	—	—	—
	6,250	—	—	$2.50	06/26/2012	—	—	—	—
	666	1,334	—	$2.51	09/22/2018	—	—	—	—

(1) Includes each grant of both exercisable and unexercisable options under the Company's 2001 Long-Term Stock Option Plan and the 2005 Equity Incentive Plan.

(2) The identity of the named executive officers holding unvested securities as of the date of this table, the vesting date for such securities and the number of securities vesting on the applicable date is as follows:

Officer	Vesting Date	Shares Vesting
George D. Shaunnessy	04/22/2011	20,000
Jack M. Spurr, Jr.	09/22/2010	666
	09/22/2011	668

Options Exercised and Stock Vested

The following table provides information with respect to common shares which were issued pursuant to the exercise of options or which were shares of restricted stock that vested, in each case between July 1, 2009 and June 30, 2010 for the named executive officers:

Name	Option Awards		Stock Awards	
	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise[1] ($)	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting ($)
Robert M. Thornton, Jr.	0	0	N/A	N/A
Mark J. Stockslager	0	0	N/A	N/A
Harry R. Alvis	12,800	384	N/A	N/A
George D. Shaunnessy	0	0	N/A	N/A
Jerome D. Orth	10,000	300	N/A	N/A
Jack M. Spurr, Jr.	6,250	0	N/A	N/A

(1) We compute this value on the spread between the exercise price and the closing price of our common shares on NYSE Amex at exercise.

Long-Term Incentive Plan Awards

The Company granted awards to named executive officers during the fiscal year ended June 30, 2010 as disclosed in the *Grants Of Plan-Based Awards In Last Fiscal Year* on page 33 under our 2005 Equity Incentive Plan, a long-term incentive plan, as defined under applicable SEC Rules.

Pension Plan Benefits

Effective February 28, 1997, SunLink amended its domestic retirement plan to freeze participant benefits and close the plan to new participants. Accordingly, compensation earned after February 28, 1997 is not used in determining a participant's accrued benefit. Mr. Thornton and Mr. Stockslager are participants in the plan. The estimated monthly benefits to be received by them at age 65 are $159.94 and $601.24, respectively.

Name	Plan Name	Number of Years Credited Service (#)	Present Value of Accumulated Benefit ($)	Payments During Last Fiscal Year ($)
Robert M. Thornton, Jr.	KRUG International Corp. Retirement Plan	2	18,147	0
Mark J. Stockslager	KRUG International Corp. Retirement Plan	8	38,749	0
Harry R. Alvis	N/A	N/A	N/A	N/A
George D. Shaunnessy	N/A	N/A	N/A	N/A
Jerome D. Orth	N/A	N/A	N/A	N/A
Jack M. Spurr, Jr.	N/A	N/A	N/A	N/A

Nonqualified Deferred Compensation

The Company does not generally offer nonqualified deferred compensation to its officers, and none of its named executive officers currently participate or have participated in any nonqualified deferred compensation plan during the past fiscal year.

Employment Contracts, Termination Of Employment And Change-In-Control Arrangements

Employment Agreements

Robert M. Thornton, Jr. Mr. Thornton, Chairman, President and Chief Executive Officer, is currently employed by the Company under the terms of an employment agreement effective July 1, 2005, as amended to date, for a term ending June 30, 2008 absent notice the contract provides for automatic renewal at the end of its then current term for a period of eighteen months. Mr. Thornton's current employment agreement provides for a base salary at a rate of not less than $335,000 per annum effective July 1, 2005 and thereafter plus any increases that may be granted at least annually by the Company. However, based on mutual agreement, between the company and Mr. Thornton, his current salary is $330,000. Mr. Thornton is eligible to participate in the Company's 2005 Equity Incentive Plan if equity is available thereunder and if the board decides to grant him additional equity compensation. Under his employment agreement, Mr. Thornton is also eligible to receive an annual bonus of up to sixty percent of his annual base salary if certain criteria established by the compensation committee (in consultation with him) are met. Mr. Thornton is eligible to participate in the Company's medical, dental, life and disability programs.

Mr. Thornton's employment agreement also provides for severance payments in the event Mr. Thornton ceases to be employed by the Company. If Mr. Thornton is terminated for death, disability or cause, he is entitled to the accrued compensation under his employment agreement, including a pro rata share of any annual bonus. If Mr. Thornton is terminated other than for death, disability or cause, he is entitled to receive severance payments equal to thirty months salary, a pro rata portion of any annual bonus for which goals have been proportionately met and continuation of certain benefits for and during the thirty months following termination.

Mark J. Stockslager. Mr. Stockslager, Chief Financial Officer, is currently employed by the Company under the terms of an employment letter effective January 1, 2001. Mr. Stockslager's current employment letter provides for a salary of $7,333 per month or $88,000 on an annualized basis, which will be reevaluated at least annually to determine if any adjustments should be made. Currently, Mr. Stockslager's salary is $14,438 per month or $173,250 on an annualized basis. Additionally, Mr. Stockslager is also eligible to receive an annual bonus of up to forty percent of his annual base salary if certain criteria established by the compensation committee are met. Mr. Stockslager is eligible to participate in the Company's stock option program, as well as the Company's medical, dental, life and disability programs. Mr. Stockslager will be entitled to severance pay by continuation of his base salary for nine months if he is terminated, other than for cause, as determined by the board of directors in its sole discretion.

Harry R. Alvis. Mr. Alvis, Chief Operating Officer, is currently employed by the Company under the terms of an employment agreement effective July 1, 2005, as amended to date for a term ending December 31, 2010 with an automatic renewal period of twelve months. Mr. Alvis' employment agreement provides for a salary of not less than $244,000 per annum effective July 1, 2005 and thereafter, plus any increases that may be granted at least annually by the Company. Currently, Mr. Alvis' salary is $250,100. Under his employment agreement, Mr. Alvis is eligible to participate in the Company's 2005 Equity Incentive Plan if the board decides to grant him additional options under this Plan. Mr. Alvis is also eligible to receive an annual bonus of up to sixty percent of his annual base salary if certain criteria established by the compensation committee are met. Mr. Alvis is also eligible to participate in the Company's medical, dental, life and disability programs.

Mr. Alvis' employment agreement also provides for severance payments in the event Mr. Alvis ceases to be employed by the Company. If Mr. Alvis is terminated for death, disability or cause, he is entitled to the accrued compensation under the agreement, including a pro rata share of any annual bonus. If Mr. Alvis is terminated other than for death, disability or cause, he is entitled to receive severance payments equal to twelve months salary, a pro rata portion of any annual bonus for which goals have been proportionately met and continuation of certain benefits for and during 60 days following termination.

Jack M. Spurr, Jr. Mr. Spurr, Vice President, Hospital Financial Operations, is currently employed by the Company under the terms of an employment letter effective October 1, 2002. Mr. Spurr's current employment letter provides for a salary of $8,333 per month or $100,000 on an annualized basis, which will be reevaluated at least annually to determine if any adjustments should be made. Currently, Mr. Spurr's salary is $14,272 per month or $171,258 on an annualized basis. Additionally, Mr. Spurr is eligible to receive an annual bonus of up to forty percent of his base salary if certain criteria established by the compensation committee are met. Mr. Spurr is eligible to participate in the Company's stock option program, as well as the Company's medical, dental, life and disability programs.

Change-In-Control Arrangements

A "change-in-control" will be deemed to have occurred in the event that any of the following events shall have occurred:

- Any Person, or Persons acting together that would constitute a "group", together with any Affiliates or Related Persons thereof (other than any employee stock ownership plan), beneficially owns 40% or more of the total voting power of all classes of Voting Stock of the Company, except an acquisition by (i) an employee benefit plan maintained by the Company or another corporation controlled directly or indirectly by the Company; (ii) the Company or any Subsidiary; (iii) Executive or any Person controlled by an Executive, under common control with Executive or acting in concert with Executive; or (iv) any Person in connection with a non-control transaction;
- The individuals who, as of the date of the agreement, are members of the board (the "incumbent board") cease for any reason to constitute at least two-thirds of the board; *provided*, *however*, that if the election, or nomination for election by that company's stockholders, of any new director was approved by a vote of at least two-thirds of the incumbent board, such new director shall, for purposes of change in control, be considered as a member of the incumbent board; *provided*, *further*, *however*, that no individual shall be considered a member of the incumbent board if such individual initially assumed office as a result of either an actual or threatened "Election Contest" (as described in Rule 14a-11 promulgated under the 1934 Act) or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the board (a "proxy contest") including by reason of any agreement intended to avoid or settle any Election Contest or proxy contest;
- Approval by stockholders of SunLink of a merger, consolidation or reorganization involving the Company, unless
  - the stockholders of the Company, immediately before such merger, consolidation or reorganization, own, directly or indirectly, immediately following such merger, consolidation or reorganization, at least two-thirds of the combined voting power of the outstanding voting securities of the corporation resulting from such merger or consolidation or reorganization (the "surviving corporation") in substantially the same proportion as their ownership of the voting securities immediately before such merger, consolidation or reorganization, and
  - the individuals who were members of the incumbent board immediately prior to the execution of the agreement providing for such merger, consolidation or reorganization constitute at least two-thirds of the members of the board of directors of the surviving corporation; or
- If the executive's employment is terminated prior to a change-in-control and the executive reasonably demonstrates that such termination (A) was at the request of a third party who has indicated an intention or taken steps reasonably calculated to effect a change-in-control and who effectuates a change-in-control (a "third party") or (B) otherwise occurred in connection with, or in anticipation of, a change-in-control which actually occurs, then for all purposes, the date of a change in control with respect to the executive shall mean the date immediately prior to the date of such termination of the executive's employment.

Upon a change-in-control, if Mr. Thornton's employment is thereafter terminated for any reason other than cause or if he terminates his employment within one (1) year of the change-in-control, he is entitled to (a) thirty months of base pay, to be paid in accordance with the Company's payroll practices; (b) accrued compensation, including a pro rata portion of any bonus for which goals have been proportionately met; (c) health and certain ancillary benefits for twenty-four months following termination; and (d) full vesting of any then unvested stock options.

Upon a change-in-control, if Mr. Alvis' employment is thereafter terminated for any reason other than cause or if he terminates his employment within one (1) year of the change-in-control, he is entitled to (a) fifteen months of base pay, to be paid in accordance with the Company's payroll practices; (b) accrued compensation, including a pro rata portion of any bonus for which goals have been proportionately met; (c) health and certain ancillary benefits for ninety days following termination; and (d) full vesting of any then unvested stock options.

Upon a change-in-control, if Mr. Stockslager's employment is thereafter terminated for any reason other than cause or if he terminates his employment within one (1) year of the change-in-control, he is entitled to a severance equal to twelve months of base pay, to be paid in accordance with the Company's payroll practices.

The following table sets forth certain potential benefits which would have been realized in connection with a *change-in-control and termination of employment* for the Company's principal executive officer, principal financial officer and four other most highly compensated executive officers for 2010 assuming the change in control and termination occurred as of the last day of the most recently completed fiscal year.

Name and Principal Position	Continued Base Salary[(1)] $	Lump Sum Salary Bonus and Incentive Compensation Payment[(2)] $	Value of Health and Insurance Benefits[(3)] $	Value of Accelerated Equity Awards[(4)] $	Total Termination Benefits $
Robert M. Thornton, Jr. Chairman, President and Chief Executive Officer	825,000	0	34,795	0	859,795
Mark J. Stockslager Chief Financial Officer and Principal Accounting Officer	173,250	N/A	N/A	N/A	173,250
Harry R. Alvis Chief Operating Officer	312,625	0	4,349	N/A	316,974
George D. Shaunnessy President, SunLink ScriptsRx, LLC	N/A	N/A	N/A	N/A	N/A
Jerome D. Orth Vice President, Technical and Compliance Services	N/A	N/A	N/A	N/A	N/A
Jack M. Spurr, Jr. Vice President, Hospital Financial Operations	N/A	N/A	N/A	N/A	N/A

(1) The continued base salary benefit is to be paid in accordance with the Company's regularly scheduled pay periods over the applicable benefits period.

(2) Calculated as a pro rata portion of any annual bonus for which goals have been proportionately met prior to termination and without regard to any requirement to be employed on payment date. Such payment shall be made after an audit of annual results in accordance with the applicable plan.

(3) Calculated based on the lesser of aggregate premiums amounts payable and assuming the exercise of all rights of the covered individual under COBRA plus supplemental life insurance, without adjustment for inflation, multiplied by the assumed actuarial lives of the persons provided benefits or the maximum benefit period if shorter.

(4) Calculated based on the sum of the number of accelerated option awards multiplied by the positive difference, if any, between the exercise price of such option and the market price of the Company's common stock at June 30, 2010. All acceleratable options had an exercise price in excess of the market value of the Company's common stock at June 30, 2010.

The following table sets forth certain potential benefits which would have been realized in connection with a termination of employment due to *disability* for the Company's principal executive officer, principal financial officer and four other most highly compensated executive officers for 2010 assuming the qualifying event and termination occurred as of the last day of the most recently completed fiscal year.

Name and Principal Position	Continued Base Salary $	Lump Sum Salary Bonus and Incentive Compensation Payment[1] $	Value of Health and Insurance Benefits $	Value of Accelerated Equity Awards $	Total Termination Benefits $
Robert M. Thornton, Jr. Chairman, President and Chief Executive Officer	N/A	0	N/A	N/A	0
Mark J. Stockslager Chief Financial Officer and Principal Accounting Officer	N/A	N/A	N/A	N/A	N/A
Harry R. Alvis Chief Operating Officer	N/A	0	N/A	N/A	0
George D. Shaunnessy President, SunLink ScriptsRx, LLC	N/A	N/A	N/A	N/A	N/A
Jerome D. Orth Vice President, Technical and Compliance Services	N/A	N/A	N/A	N/A	N/A
Jack M. Spurr, Jr. Vice President, Hospital Financial Operations	N/A	N/A	N/A	N/A	N/A

(1) Calculated as a pro rata portion of any annual bonus for which goals have been proportionately met prior to termination and without regard to any requirement to be employed on payment date. Such payment shall be made after an audit of annual results in accordance with the applicable plan.

The following table sets forth certain potential benefits which would have been realized in connection with a termination of employment due to *death* for the Company's principal executive officer, principal financial officer and four other most highly compensated executive officers for 2010 assuming the qualifying event and termination occurred as of the last day of the most recently completed fiscal year.

Name and Principal Position	Continued Base Salary $	Lump Sum Salary Bonus and Incentive Compensation Payment[1] $	Value of Health and Insurance Benefits $	Value of Accelerated Equity Awards $	Total Termination Benefits $
Robert M. Thornton, Jr. Chairman, President and Chief Executive Officer	N/A	0	N/A	N/A	0
Mark J. Stockslager Chief Financial Officer and Principal Accounting Officer	N/A	N/A	N/A	N/A	N/A
Harry R. Alvis Chief Operating Officer	N/A	0	N/A	N/A	0
George D. Shaunnessy President, SunLink ScriptsRx, LLC	N/A	N/A	N/A	N/A	N/A
Jerome D. Orth Vice President, Technical and Compliance Services	N/A	N/A	N/A	N/A	N/A
Jack M. Spurr, Jr. Vice President, Hospital Financial Operations	N/A	N/A	N/A	N/A	N/A

(1) Calculated as a pro rata portion of any annual bonus for which goals have been proportionately met prior to termination and without regard to any requirement to be employed on payment date. Such payment shall be made after an audit of annual results in accordance with the applicable plan.

The following table sets forth certain potential benefits which would have been realized in connection with a termination of employment due to *termination of employment for cause* for the Company's principal executive officer, principal financial officer and four other most highly compensated executive officers for 2010 assuming the termination occurred as of the last day of the most recently completed fiscal year.

Name and Principal Position	Continued Base Salary $	Lump Sum Salary Bonus and Incentive Compensation Payment[1] $	Value of Health and Insurance Benefits $	Value of Accelerated Equity Awards $	Total Termination Benefits $
Robert M. Thornton, Jr. Chairman, President and Chief Executive Officer	N/A	0	N/A	N/A	0
Mark J. Stockslager Chief Financial Officer and Principal Accounting Officer	N/A	N/A	N/A	N/A	N/A
Harry R. Alvis Chief Operating Officer	N/A	0	N/A	N/A	0
George D. Shaunnessy President, SunLink ScriptsRx, LLC	N/A	N/A	N/A	N/A	N/A
Jerome D. Orth Vice President, Technical and Compliance Services	N/A	N/A	N/A	N/A	N/A
Jack M. Spurr, Jr. Vice President, Hospital Financial Operations	N/A	N/A	N/A	N/A	N/A

(1) Calculated as a pro rata portion of any annual bonus for which goals have been proportionately met prior to termination and without regard to any requirement to be employed on payment date. Such payment shall be made after an audit of annual results in accordance with the applicable plan.

The following table sets forth certain potential benefits which would have been realized in connection with a termination of employment due to *termination of employment without cause* for the Company's principal executive officer, principal financial officer and four other most highly compensated executive officers for 2010 assuming the termination occurred as of the last day of the most recently completed fiscal year.

Name and Principal Position	Continued Base Salary[(1)] $	Lump Sum Salary Bonus and Incentive Compensation Payment[(2)] $	Value of Health and Insurance Benefits[(3)] $	Value of Accelerated Equity Awards[(4)] $	Total Termination Benefits $
Robert M. Thornton, Jr. Chairman, President and Chief Executive Officer	825,000	0	43,493	0	868,493
Mark J. Stockslager Chief Financial Officer and Principal Accounting Officer	129,938	N/A	N/A	N/A	129,938
Harry R. Alvis Chief Operating Officer	250,100	0	2,900	N/A	253,000
George D. Shaunnessy President, SunLink ScriptsRx, LLC	231,167	N/A	N/A	N/A	231,167
Jerome D. Orth Vice President, Technical and Compliance Services	N/A	N/A	N/A	N/A	N/A
Jack M. Spurr, Jr. Vice President, Hospital Financial Operations	N/A	N/A	N/A	N/A	N/A

(1) The continued base salary benefit is to be paid in the ordinary course over the applicable period.

(2) Calculated as a pro rata portion of any annual bonus for which goals have been proportionately met prior to termination and without regard to any requirement to be employed on payment date. Such payment shall be made after an audit of annual results in accordance with the applicable plan.

(3) Calculated based on the lesser of aggregate premiums amounts payable and assuming the exercise of all rights of the covered individual under COBRA plus supplemental life insurance, without adjustment for inflation, multiplied by the assumed actuarial lives of the persons provided benefits or the maximum benefit period if shorter.

(4) Calculated based on the sum of the number of accelerated option awards multiplied by the positive difference, if any, between the exercise price of such option and the market price of the Company's common stock at June 30, 2010. All acceleratable options, if any, had an exercise price in excess of the market value of the Company's common stock at June 30, 2010.

ITEM 2 TO BE VOTED ON BY SHAREHOLDERS

Item 2–Ratification of Independent Registered Public Accounting Firm

Cherry, Bekaert & Holland, L.L.P. was engaged to perform the Company's annual audit for the fiscal year ended June 30, 2010. We anticipate that representatives of Cherry, Bekaert & Holland, L.L.P. will be present at the annual meeting of shareholders to respond to appropriate questions and to make a statement if such representatives so desire.

The audit committee of the board of directors of the Company has appointed Cherry, Bekaert & Holland, L.L.P. to serve as our independent registered public accounting firm for the fiscal year beginning July 1, 2010. We are asking our shareholders to ratify the selection of Cherry, Bekaert & Holland, L.L.P. as our independent registered public accounting firm. Although ratification is not required by our bylaws or otherwise, the board is submitting the selection of Cherry, Bekaert & Holland, L.L.P. to our shareholders for ratification as a matter of good corporate practice. If the selection is not ratified, the audit committee will consider whether it is appropriate to select another independent registered public accounting firm. Even if the selection is ratified, the audit committee in its discretion may select a different independent registered public accounting firm at any time during the year and may periodically request proposals from other independent registered public accounting firms and as a result of such process may select Cherry, Bekaert & Holland, L.L.P. or another independent registered public accounting firm if the audit committee determines that such a change or action would be in the best interests of the company and our shareholders.

The board of directors unanimously recommends a vote "FOR" the ratification of the appointment of Cherry, Bekaert & Holland, L.L.P. as our independent registered public accounting firm.

CERTAIN ACCOUNTING AND AUDITING MATTERS

Report Of The Audit Committee

The authority, duties and responsibilities of the audit committee of the board of directors of the Company are set forth in detail in the written audit committee charter, which was adopted by the board of directors of the Company and which complies with the applicable rules of NYSE Amex. The audit committee has three members, each of whom is independent under the applicable rules of NYSE Amex. In accordance with section 407 of the Sarbanes-Oxley Act of 2002, Mr. Ford has been identified as an "Audit Committee Financial Expert".

The audit committee reviews and assesses the adequacy of its charter on an annual basis. A copy of the audit committee charter is available on the Company's website at *www.sunlinkhealth.com*.

The audit committee is responsible for overseeing the Company's financial reporting process on behalf of the board of directors. Management of the Company has the primary responsibility for the Company's financial reporting process, principles and internal controls as well as preparation of its financial statements in accordance with generally accepted accounting principles. The Company's independent auditors are responsible for performing an audit of the Company's financial statements and expressing an opinion as to the conformity of such financial statements with generally accepted accounting principles in the United States.

The audit committee met six (6) times during the 2010 fiscal year. In addition, the members of the committee reviewed, and the chairperson of the committee discussed with management and the Company's independent auditors, the interim financial information contained in each quarterly earnings release prior to the release of such information to the public.

The audit committee has reviewed and discussed the Company's audited financial statements as of and for the year ended June 30, 2010 with management and the independent auditors. The audit committee has discussed

with the independent auditors the matters required to be discussed under Standards of the Public Company Accounting Board (United States), including those matters set forth in Statement on Auditing Standards ("SAS") No. 114, *The Auditor's Communication with Those Charged with Governance*, as adopted by the Public Company Accounting Oversight Board in Rule 3200T. In addition, the Audit Committee received from the independent registered public accounting firm the written disclosures and the letter required by the Public Company Accounting Oversight Board's applicable requirements and has discussed with them their independence from the Company and its management. The Audit Committee has considered whether the independent registered public accounting firm's provision of non-audit services to the Company is compatible with maintaining the independent registered public accounting firm's independence. The audit committee has concluded that the independent auditors are independent from the Company and its management.

The audit committee discussed with the Company's independent auditors the overall scope and plans for their respective audits. In addition, the audit committee met with the Chief Executive Officer and Chief Financial Officer of the Company to discuss the processes that they have undertaken to evaluate the accuracy and fair presentation of the Company's financial statements and the effectiveness of the Company's system of disclosure controls and procedures.

In fulfilling its oversight responsibilities and as part of its review of the Company's 2010 Annual Report, the audit committee met with the Company's independent auditors, with and without management present, to discuss their evaluations of the Company's internal controls as well as the overall quality of its financial reporting.

The fees paid to the Company's auditors, Cherry, Bekaert & Holland, L.L.P., as well as the policy on pre-approval of audit and non-audit services are set forth elsewhere in this proxy statement.

As a result of the reviews and discussions with management and Cherry, Bekaert & Holland, L.L.P. referred to above, the audit committee recommended to the board and the board has approved that the audited financial statements of the Company be included in the Annual Report on Form 10-K for the fiscal year ended June 30, 2010 for filing with the Securities and Exchange Commission.

This report has been submitted by the audit committee:

C. Michael Ford (Chairperson)   Karen B. Brenner   Michael W. Hall

The foregoing report shall not be deemed incorporated by reference by any general statement incorporating by reference this proxy statement into any filing under the Securities Act of 1933.

Policy On Pre-Approval Of Services Provided By Independent Registered Public Accounting Firm

Pursuant to the requirements of the Sarbanes-Oxley Act of 2002, the terms of the engagement of Cherry, Bekaert & Holland, L.L.P. with respect to all auditing services and non-audit services to be performed for the Company by its independent registered public accountants are subject to the specific pre-approval of the audit committee (except where such services are determined to be de minimis under the Exchange Act). All audit and permitted non-audit services to be performed by Cherry, Bekaert & Holland, L.L.P. require pre-approval by the audit committee in accordance with pre-approved procedures established by the audit committee. The audit committee may delegate to one or more designated members of the audit committee who are independent directors of the board of directors, the authority to grant such pre-approvals. The decisions of any member to whom such authority is delegated are presented to the full audit committee at the next scheduled meeting of the committee. The procedures require all proposed engagements of Cherry, Bekaert & Holland, L.L.P. for services of any kind to be directed to the Company's Principal Accounting Officer and then submitted for approval to the audit committee prior to the beginning of any services.

In fiscal 2010, 100% of the audit fees, audit-related fees and tax fees billed by Cherry, Bekaert & Holland, L.L.P. were approved either by the audit committee or its designee. The fees billed by Cherry, Bekaert & Holland, L.L.P. that are shown in the following table for fiscal 2009 were also pre-approved by the audit committee or its designee. The audit committee has considered whether the provision of non-audit services by the Company's independent registered public accounting firm is compatible with maintaining auditor independence and believes that the provision of such services is compatible.

Independent Registered Public Accounting Firm Fees

The following tables show the type of services and the aggregate fees billed to the Company for such services during the fiscal years ended June 30, 2010 and 2009 by SunLink's independent registered public accounting firm, Cherry, Bekaert & Holland, L.L.P. Descriptions of the service types follow the table.

Services Rendered by Cherry, Bekaert & Holland, L.L.P.	Fiscal 2010	Fiscal 2009
Audit Fees	$220,000	$360,500
Audit-Related Fees	$ 69,748	$143,180
Tax Fees	$171,000	$189,350
All Other Fees	$ 0	$ 0

Audit Fees

The aggregate fees billed by Cherry, Bekaert & Holland, L.L.P. for each of the last two fiscal years include fees for professional services rendered for the audit of the Company's annual financial statements, review of financial statements included in the Company's Quarterly Reports on Form 10-Q and consents and assistance with and review of other documents filed with the SEC, and accounting and financial reporting consultations and other attest services and the issuance of consents.

Audit-Related Fees

The aggregate fees billed by Cherry, Bekaert & Holland, L.L.P. in each of the last two fiscal years include fees for assurance and related services that are reasonably related to the performance of the audit or review of the Company's financial statements. The nature of the services performed for these fees may include, among other things, employee benefit plan audits, internal control reviews, attest services not required by statute or regulation and consultations concerning financial accounting and reporting matters not classified as an audit.

Tax Fees

The aggregate fees billed by Cherry, Bekaert & Holland, L.L.P. in each of the last two fiscal years include fees for professional services rendered for tax compliance, including assisting the Company with tax audits.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934 requires directors and certain officers of the Company and owners of more than 10% of the Company's common shares to file an initial ownership report with the Securities and Exchange Commission and a monthly or annual report listing any subsequent change in their ownership of any of the Company's equity securities. The Company believes, based solely on a review of the copies of those reports furnished to the Company during the past year and written representations to it that no other reports were required, that during the period from July 1, 2009 through June 30, 2010 all filing requirements have been met.

COST OF SOLICITATION

The cost of solicitation of proxies will be borne by the Company. In addition to the use of the mails, proxy solicitations may be made by directors, officers and employees of the Company, personally or by telephone or other means of communication, without receiving additional compensation. It is also anticipated that banks, brokerage houses and other custodians, nominees and fiduciaries will be requested to forward soliciting material to their principals and to obtain authorization for the execution of proxies. The Company will reimburse banks, brokerage houses and other custodians, nominees and fiduciaries for their out-of-pocket expenses.

REQUIREMENTS, INCLUDING DEADLINES, FOR SUBMISSION OF PROXY PROPOSALS, NOMINATION OF DIRECTORS AND OTHER BUSINESS OF SHAREHOLDERS

We plan to hold our 2011 annual meeting of shareholders during the month of November. Any proposal of a shareholder intended to be presented at the 2011 annual meeting of shareholders must be received by us for inclusion in the proxy statement and form of proxy for that meeting no later than June 14, 2011, 120 days before the anniversary of the date of this proxy statement. If any proposal is submitted after that date, we are not required to include it in our proxy materials. Proposals should be submitted to the following address:

Corporate Secretary
SunLink Health Systems, Inc.
900 Circle 75 Parkway, Suite 1120
Atlanta, Georgia 30339

A notice of a proposed item of business should include a description of, and the reasons for, bringing the proposed business to the meeting, any material interest of the shareholder in the business, and certain other information about the shareholder.

Under our Code of Regulations, and as SEC rules permit, shareholders must follow certain procedures to nominate a person for election as a director at an annual or special meeting. Under these procedures, shareholders must submit the proposed nominee by delivering a notice to the Secretary of the Company at our principal executive offices. Normally, we must receive notice of a shareholder’s intention to introduce a nomination at an annual meeting not less than 50 days nor more than 75 days before the next meeting. Assuming that our 2011 Annual Meeting of Shareholders is held on November 7, 2011, we must receive notice pertaining to the 2011 Annual Meeting no earlier than August 24, 2011 and no later than September 18, 2011. However, if we give less than 60 days notice or public announcement of the annual meeting date, we must receive the notice no later than the close of business ten days after the earlier of the date we first provide notice of the meeting to shareholders or announce it publicly.

If we hold a special meeting to elect directors which is with less than 60 days notice, the effect of our Code of Regulations will be that we must receive a shareholder’s notice of intention to introduce a nomination no later than the close of business ten days after the earlier of the date we first provide notice of the meeting to shareholders or announce it publicly.

A notice of a proposed nomination must include certain information about the shareholder and the nominee, as well as a written consent of the proposed nominee to serve if elected.

WHERE YOU CAN FIND ADDITIONAL INFORMATION

We have mailed, and posted on the Internet, our 2010 Annual Report to Shareholders in connection with this proxy solicitation. IF YOU WOULD LIKE A PHYSICAL COPY OF OUR 2010 FORM 10-K, EXCLUDING CERTAIN EXHIBITS, PLEASE CONTACT SUNLINK HEALTH SYSTEMS, INC., 900 CIRCLE 75 PARKWAY, SUITE 1120, ATLANTA, GEORGIA 30339.

OTHER MATTERS

Admission To Meeting

All shareholders as of the record date, or their duly appointed proxies, may attend the meeting. Seating, however, may be limited. Admission to the meeting will be on a first-come, first-served basis. Please note that if you hold your shares in “street name” (that is, through a broker or other nominee), you will need to bring a copy of a brokerage statement reflecting your stock ownership as of the record date. Only shareholders as of the record date may attend the meeting. Each shareholder may be asked to present valid picture identification, such as a driver’s license or passport. Cameras, recording devices, cellular telephones, beepers and other electronic devices will not be permitted at the meeting.

Action On Other Matters At The Annual Meeting

At this time, we do not know of any other matters to be presented for action at the annual meeting other than those mentioned in the Notice of annual meeting of shareholders and referred to in this proxy statement. If any other matter properly comes before the meeting, it is intended that the proxies will be voted in respect thereof in accordance with the judgment of the persons voting the proxies.

Shareholders are urged to date, sign and return promptly the enclosed proxy in the accompanying envelope, which requires no postage if mailed in the United States, or to vote their shares via telephone or the Internet. Your cooperation will be appreciated. Your proxy will be voted, with respect to the matters identified thereon, in accordance with any specifications on the proxy.

Dear Fellow Shareholder,

During fiscal 2010 SunLink Health Systems, Inc. experienced serious challenges in our hospital operations, particularly due to weak patient volume and higher bad debts, primarily resulting from the down economy, with record unemployment and a decline in government funded Medicaid reimbursement. In addition, the challenges faced in our hospital operations were compounded by front-end costs and a corresponding lag in practice development associated with our shift to a greater proportion of hospital employed physicians. SunLink's fiscal 2010 performance was also adversely affected by weak results in the pharmacy business we acquired in 2008.

Our hospitals achieved an increase in net revenues of 1.9 percent this year, offset by a decrease of 6.9 percent in net revenues of our specialty pharmacy segment. Overall, net revenue was essentially flat in fiscal 2010 at $197,784,000. We reported a loss from continuing operations of $930,000, or a loss of $0.12 per share, in fiscal 2010 compared to income from continuing operations of $1,067,000, or $0.13 per share, in fiscal 2009.

In order to better serve patients in our respective communities and offset recent weak patient volume, we have been expanding the number of employed physicians in our hospitals with an emphasis on primary care (Family Practice, Internal Medicine and Pediatrics). These employed physicians require a period of time to develop a patient base, during which we incur substantial costs. We continually monitor these physicians and clinics and make adjustments to their operations as needed. It is our belief that we are well positioned with our physicians and their respective practice areas for a return to a better economic environment. However, this past year has not generated the patient activity needed to cover their employment and clinic costs, nor to contribute as expected to the hospitals' volume.

For fiscal 2010, bad debts in our hospitals were $24,680,000, or 15.9 percent of net revenues, compared to $22,120,000, or 14.6 percent of net revenues, last year. In response to these and other factors, we continue to modify and upgrade our clinical and business systems to address this new reality. We believe the negative impact of the economy and Medicaid reimbursement issues are likely to be with us a while. These influences have us focused on ways in which we can achieve greater cost and operating efficiencies.

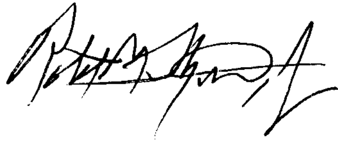
During fiscal 2010, we spent approximately $1,200,000 in capital improvements at our hospitals, including new mammography equipment at our North Georgia Medical Center, as well as medical equipment at other hospitals and the company's Electronic Health Records project. We are currently positioning the company for the effects of healthcare reform, particularly in the area of information technology to upgrade and add information technology applications in our hospitals. The Electronic Health Records project should allow us to meet the Federal "meaningful use" requirements and also improve the information available for management of our patients and resources. We made an initial capital infusion of $525,000 in fiscal 2010 and have budgeted $1,000,000 in fiscal 2011 to complete this project.

Carmichael's Cashway Pharmacy, our specialty pharmacy and infusion business in rural southwest Louisiana, has performed substantially below our expectations. Carmichael's contributed net revenues of $42,962,000 and adjusted EBITDA of $1,218,000 this year, compared with fiscal 2009 net revenues of $46,130,000 and adjusted EBITDA of $3,394,000. Our efforts during fiscal 2010 have been directed toward improving its management, including hiring a new chief financial officer, a sales manager and a controller. Subsequent to the close of fiscal 2010, in October, we appointed Bryon D. Finn as president of SunLink ScriptsRx. All of these individuals have extensive healthcare experience. We have also replaced some sales reps and have restructured the sales territories, established quota systems and implemented a new commission plan. In July 2010, we opened a retail pharmacy in the Lafayette branch. Our fiscal 2011 plan includes the installation of new computer systems in the medical and pharmacy equipment divisions to improve efficiencies for intake, billing, logistics and collection; and the implementation of specific cost efficiency measures in both purchasing and operating expense areas of the business. The recently fulfilled and planned initiatives will offer the potential for improved efficiencies, broader pharmacy services, better results and faster growth.

Under the current economic circumstances, as well as the uncertainty of healthcare reform, we are focusing on paying down debt rather than pursuing acquisitions. We paid down $5,508,000 of debt this year. At June 30, 2010, we were not in compliance with all required covenants under our credit agreement and, subsequent to June 30, obtained a waiver of the covenant non-compliance from our lenders through fiscal 2011. However, under the waiver agreement, the termination date of the credit agreement was shortened from April 22, 2015 to September 30, 2011, the interest rate paid for borrowed funds was increased and quarterly waiver fees were added.

Our Board of Directors continues to evaluate strategic alternatives, which it believes have the potential to increase shareholder value. The company's management team, both the hospital and specialty pharmacy leaders, are committed to improving operations and positioning SunLink for future growth and profitability.

Sincerely,



Robert M. Thornton, Jr.
Chairman & Chief Executive Officer

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

Form 10-K

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the Fiscal Year Ended June 30, 2010

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 No. 1-12607

SunLink Health Systems, Inc.
(Exact name of registrant as specified in its charter)

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

900 Circle 75 Parkway, Suite 1120, Atlanta, Georgia 30339
(Address of principal executive offices)

Registrant's telephone number, including area code: (770) 933-7000

Securities Registered Pursuant to Section 12(b) of the Act:

Title of each Class	Name of each Exchange on which registered
Common Shares without par value	NYSE Amex Equities

Indicate by check mark whether if the registrant is a well-known seasoned issuer, as defined in Rule 405 of Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

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 filing requirements for the past 90 days. Yes ☒ 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K 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 ☒

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

At the close of business on September 30, 2010, there were 8,081,732 shares of the registrant's common shares without par value outstanding. The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the closing price on December 31, 2009 of the registrant's common shares as reported by NYSE Amex Equities stock exchange amounted to $9,125,000.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive Proxy Statement to be filed under Regulation 14A in connection with the Annual Meeting of Shareholders of SunLink Health Systems, Inc., scheduled to be held on November 8, 2010, have been incorporated by reference into Part III of this Report. The Proxy Statement will be filed with the Securities and Exchange Commission within 120 days after June 30, 2010.

Certain Cautionary Statements

FORWARD-LOOKING STATEMENTS

This Annual Report and the documents that are incorporated by reference in this Annual 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 based on current 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, homecare, and specialty pharmacy businesses;
- demographic changes in areas where we operate;
- the availability of new long-term financing to replace our current credit agreement lender;
- the availability of cash or borrowings to fund working capital, renovations, replacement, expansion and capital improvements at existing healthcare and specialty pharmacy facilities and for acquisitions and replacement of such 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 profitably 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;
- timeliness and amount of reimbursement payments received under government programs;
- restrictions imposed by debt agreements;
- the cost and availability of insurance coverage including professional liability (e.g., medical malpractice) and general liability insurance;
- the efforts of insurers, healthcare providers, and others to contain healthcare costs;
- the impact on hospital services of the treatment of patients in lower acuity healthcare settings, whether with drug therapy or via alternative healthcare services, such as surgery centers or urgent care centers;
- changes in medical and other technology;
- risks of changes in estimates of self insurance claims and reserves;
- increases in prices of materials and services utilized in our Healthcare Facilities and Specialty Pharmacy Segments;
- increases in wages as a result of inflation or competition for management, physician, nursing, pharmacy and staff positions;
- increases in the amount and risk of collectability of accounts receivable, including deductibles and co-pay amounts; and,

- the functionality or costs with respect to our management information system for our Healthcare Facilities and Specialty Pharmacy Segments, including both software and hardware;
- the availability and competition from alternative drugs or treatments provided by our Specialty Pharmacy Segment;

Liabilities, Claims, Obligations and Other Matters

- claims under leases, guarantees and other obligations relating to discontinued operations, including sold facilities, retained or acquired subsidiaries and former subsidiaries;
- potential adverse consequences of known and unknown government investigations;
- claims for product and environmental liabilities from continuing and discontinued operations;
- professional, general and other claims which may be asserted against us; and
- weather-related events such as flooding, and wind damage and population evacuations affecting areas in which we operate, including Louisiana and South Georgia.

Regulation and Governmental Activity

- existing and proposed governmental budgetary constraints;
- the regulatory environment for our businesses, including state certificate of need laws and pharmacy licensing laws and regulations, rules and judicial cases relating thereto;
- anticipated adverse changes in the levels and terms of government (including Medicare, Medicaid and other programs) and private reimbursement for SunLink's healthcare facilities and specialty pharmacy services including the payment arrangements and terms of managed care agreements;
- changes in or failure to comply with Federal, state or local laws and regulations affecting our Healthcare Facilities and Specialty Pharmacy Segments; and,
- the possible enactment of Federal healthcare reform laws or reform laws in states where we operate hospital and pharmacy facilities (including Medicaid waivers, competitive bidding and other reforms).

Acquisition Related Matters

- the availability and terms of capital to fund additional acquisitions or replacement facilities;
- impairment or uncollectibility of certain acquired assets;
- Assumed liabilities discovered subsequent to an acquisition;
- Our ability to integrate acquired healthcare businesses and implement our business strategy; and
- competition in the market for acquisitions of hospitals and healthcare businesses.

The foregoing are significant factors we think could cause our actual results to differ materially from expected results. However, there could be additional factors besides those listed herein that also could affect SunLink in an adverse manner.

You should read this Annual Report completely and with the understanding that actual future results may be materially different from what we expect. You are cautioned not to unduly rely on forward-looking statements when evaluating the information presented in this Annual Report or our other disclosures because current plans, anticipated actions, and future financial conditions and results may differ from those expressed in any forward-looking statements made by or on behalf of SunLink.

We have not undertaken any obligation to publicly update or revise any forward-looking statements. All of our forward-looking statements speak only as of the date of the document in which they are made or, if a date is specified, as of such date. We disclaim any obligation or undertaking to provide any updates or revisions to any

forward-looking statement to reflect any change in our expectations or any changes in events, conditions, circumstances or information on which the forward-looking statement is based. All subsequent written and oral forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by the foregoing factors and the other risk factors set forth elsewhere in this report.

PART I

Item 1. ***Business (all dollar amounts in thousands except share, per share and revenue per equivalent admission amounts)***

Overview

We are SunLink Health Systems, Inc. Unless the context indicates otherwise, all references to "SunLink," "we," "our," "ours," "us" and the "Company" refer to SunLink Health Systems, Inc. and our consolidated subsidiaries. We are a provider of healthcare services in certain rural and exurban markets in the United States. References to our specific operations refers to operations conducted through our subsidiaries and references to "we," "our," "ours," and "us" in such context refers to the operations of our subsidiaries. Our business is composed of two business segments, the Healthcare Facilities Segment and the Specialty Pharmacy Segment. Through our subsidiaries, we operate a total of seven community hospitals in four states. Six of the community hospitals are owned and one is leased. Our community hospitals are acute care hospitals and have a total of 402 licensed beds. As part of our community hospital operations, we currently also operate (a) three nursing homes in two states, each of which is located adjacent to, or in close proximity with, one of our community hospitals, and (b) one home healthcare agency operated from one of our community hospitals. Our nursing homes have a total of 261 licensed beds. Through a subsidiary acquired in April 2008, we also operate a specialty pharmacy business with four service lines. Our healthcare operations are conducted through our direct and indirect subsidiaries, including SunLink Healthcare LLC ("SHL"), HealthMont LLC ("HealthMont") and SunLink ScriptsRx, LLC ("ScriptsRx").

Our executive offices are located at 900 Circle 75 Parkway, Suite 1120, Atlanta, Georgia 30339, and our telephone number is (770) 933-7000. Our website address is "www.sunlinkhealth.com." Information contained on our website does not constitute part of this report. Any materials we file with the Securities and Exchange Commission ("SEC") may be read at the SEC's Public Reference Room at 100 F Street, NE, Room 1580 Washington, DC 20549. Information on the operation of the Public Reference Room may be obtained by calling the SEC at (202) 551-8090. Certain materials we file with the SEC may also be read and copied at or through our website.

History

We are an Ohio corporation and were incorporated in June 1959. In fiscal 2001 we redirected our business strategy toward healthcare services in the United States. On February 1, 2001, we purchased five community hospitals, leasehold rights for a sixth hospital and the related businesses of all six hospitals. On October 3, 2003, we acquired two additional hospitals through our acquisition of HealthMont, Inc. In June 2004, we sold our Mountainside Medical Center ("Mountainside") facility, a 35-bed hospital located in Jasper, GA. In April 2008, our SunLink ScriptsRx, LLC subsidiary acquired Carmichael's Cashway Pharmacy, Inc. ("Carmichael"). Carmichael provides services to patients in rural communities in southwest Louisiana and eastern Texas. In September 2009, we sold three of our home health businesses located in Adel, GA, Clanton, AL and Fulton, MO.

Business Strategy: Operations, Acquisitions and Strategic Alternatives

SunLink's business strategy is to focus its efforts on internal operations of its existing healthcare facilities and its pharmacy business, supplemented by growth from selected rural and exurban healthcare acquisitions, including but not limited to hospitals, nursing homes, home care businesses, and pharmacy businesses. However, as was the case in 2004 with our Mountainside Medical Center hospital and in September 2009 with the sale of three home health agencies, we consider dispositions of one or more of our facilities or operations based on a variety of factors including asset values, return on investments, competition from existing and potential facilities, capital improvement needs, corporate strategy and other corporate objectives. As we have previously announced, we have engaged Fennebresque & Co. of Charlotte, NC as financial advisor to aid in our evaluation of strategic alternatives as well as in connection with a potential refinancing of our outstanding indebtedness. Currently no

agreement has been reached or approved by the Board of SunLink to effect any strategic transaction or to refinance any of our outstanding indebtedness.

Operations

Our operational strategy is focused on efforts to improve operations and generate internal growth. Our primary operational strategy for our community hospitals is to improve the operations and profitability of such hospitals by reducing out-migration of patients, recruiting physicians, expanding services and implementing and maintaining effective cost controls. Our operational strategy for our nursing homes and home health agency is similar to that for our community hospitals and is focused on expanding services and implementing and maintaining effective cost controls.

Finally, our operational strategy for our Specialty Pharmacy Segment is focused on continuing the integration of the Carmichael operations acquired in April 2008, increasing sales, expanding services and implementing and maintaining effective cost controls.

Acquisitions

Although the Company's situation could change, based on its current financial position as well as uncertainties in the healthcare industry, the Company is not actively seeking acquisitions for its Healthcare Facilities or Specialty Pharmacy Segments. However, during the last fiscal year, we evaluated certain rural and exurban hospitals and healthcare businesses, which were for sale and monitored other selected rural and exurban healthcare acquisition targets which we believed might become available for sale.

When we seek to acquire pharmacy businesses, our acquisition strategy 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.

Although we have no current plans to do so, from time to time we may consider the acquisition of other complementary rural and exurban based healthcare businesses, outside of our existing business segments, which are or may become available for acquisition.

We continue to engage in similar evaluation and monitoring activities with respect to rural and exurban hospitals, nursing homes, home health businesses, pharmacy and other rural or exurban healthcare businesses, which are or may become available for acquisition.

Historically, we targeted the community hospital market because we believed it provided an attractive sector for investment in healthcare facilities. We continue to believe hospitals and other healthcare businesses in our rural and exurban markets generally experience (1) less direct competition, (2) lower managed care penetration, (3) more manageable inflationary pressure with respect to certain costs, (4) higher staff, employee and community loyalty, and (5), in certain cases, opportunity for future growth. The focus of acquisition activities will depend on our evaluation of relative opportunities for growth and profitability within the business segments and services lines of our existing operations, the capital needs of our existing and potential operations within such segments and services lines, current and potential changes in government regulation and reimbursement rules, competition for potential acquisitions and valuations of existing facilities and operations and other factors.

Extensive competition may exist for healthcare facility acquisitions, primarily from for-profit management companies and not-for-profit entities which may have greater financial and other resources than SunLink. Competition for the acquisition of non-urban acute-care hospitals and other healthcare facilities could have an adverse impact on our ability to acquire such hospitals and other healthcare facilities on favorable terms or at all,

We consider prices paid by others in recent years for certain hospital acquisitions to be higher than we would be willing to pay but we believe there may be opportunities for acquisitions of individual hospitals in the

future due to, among other things, continued negative trends in certain government reimbursement programs and other factors. We also believe there may be opportunities for acquisitions of individual or groups of hospitals in the future from other for-profit hospital operators seeking to re-align the focus of their portfolios.

Even if opportunities to acquire not-for-profit hospitals improve, in recent years, the legislatures and attorneys general of several states (including Georgia and other states which we believe might have suitable acquisition targets) have shown a heightened level of interest in reviewing transactions involving the sale of not-for-profit hospitals. The legal authority for such review is generally known as Conversion Legislation. Although the level of authority for, and interest in, such reviews varies from state to state, the trend is toward increased governmental authority for review and review of such transactions including, in some cases, the imposition of requirements on the seller, the buyer or both as a condition to the approval of a not-for-profit corporation selling a healthcare facility. Accordingly, even if the costs of acquiring not-for-profit hospitals improve, governmental review may make it more difficult or expensive to complete any such acquisitions.

Our acquisition strategy for nursing homes operations is to acquire businesses in areas which are complementary to either our existing hospitals or our pharmacy business or which are located in rural or exurban markets.

As noted above, from time to time we may consider the disposition of one or more of our healthcare facilities, service lines or business segments, particularly if we determine that the operating results or potential growth of such facility, service line or segment no longer meet our business objectives.

Healthcare Facilities Operations

SunLink's Healthcare Facilities Segment is composed of three operational areas:

- Our seven community hospitals;
- Our three nursing homes, each of which is located adjacent to, or in close proximity with a corresponding SunLink community hospital; and
- One hospital related home health agency, which operates for a corresponding SunLink community hospital.

Through our subsidiaries, we operate a total of seven community hospitals in four states. Six of the community hospitals are owned and one is leased. SunLink's community hospitals are acute care hospitals and have a total of 402 licensed beds. In connection with our community hospital operations in certain communities, we also operate (a) three nursing homes located in two states: each of our current nursing homes is located adjacent to our community hospitals, and (b) one home healthcare agency operated from one of our community hospitals. Our nursing homes have a total of 261 licensed beds.

Owned and Leased Hospitals

All of our hospitals are owned except Missouri Southern Healthcare, which is a leased hospital. The following sets forth certain information with respect to each of our seven community hospitals:

- Chestatee Regional Hospital ("Chestatee"), located in Dahlonega, Lumpkin County, Georgia, is a 49-licensed-bed, acute-care hospital accredited by the Joint Commission on Accreditation of Healthcare Organizations (the "JCAHO"). It includes a 12-bed obstetric department, a four-bed intensive care unit ("ICU") and a 33-bed medical/surgical/pediatrics unit. Chestatee is the only hospital in its primary service area of Lumpkin and Dawson Counties.
- North Georgia Medical Center ("North Georgia"), located in Ellijay, Gilmer County, Georgia, consists of a JCAHO accredited 50-licensed-bed, acute-care hospital and Gilmer Nursing Home, a 100-bed skilled nursing facility. North Georgia completed construction of a 6,755-square-foot emergency room addition in January 2003. North Georgia is the only hospital in Gilmer County. The Company has a 28-bed CON to replace the existing hospital.

- Trace Regional Hospital ("Trace"), located in Houston, Chickasaw County, Mississippi, consists of a JCAHO accredited 84-licensed-bed, acute-care hospital and Floy Dyer Manor Nursing Home, a 66-bed nursing home. Trace is the only hospital in Houston, Mississippi, and the primary hospital in Chickasaw County.
- Chilton Medical Center ("Chilton"), located in Clanton, Chilton County, Alabama, is a 60-licensed-bed, JCAHO accredited, acute-care hospital. Chilton is the only hospital in Chilton County.
- Missouri Southern Healthcare ("Missouri Southern"), located in Dexter, Stoddard County, Missouri, is a 50-licensed-bed, acute-care hospital. It includes a four-bed ICU. It is the only hospital in Dexter, Missouri. The lease expires in 2019. It operates a home-health agency.
- Callaway Community Hospital ("Callaway"), located in Fulton, Callaway County, Missouri, is a 49-licensed-bed, JCAHO accredited, acute-care hospital. Callaway is the only hospital in Callaway County.
- Memorial Hospital of Adel ("Adel"), located in Adel, Cook County, Georgia, consists of a JCAHO accredited 60-licensed-bed, acute-care hospital and Memorial Convalescent Center, a 95-bed skilled nursing facility. Adel is the only hospital in Cook County.

Hospital Operations

Utilization of Local Hospital Management Teams

We believe that the long-term potential of our hospitals is dependent on their ability to offer appropriate healthcare services and effectively recruit and retain physicians. Each SunLink hospital has developed and continuously seeks to implement an operating plan designed to improve efficiency and increase revenue including, but not limited to, the expansion of services offered by the hospital and the recruitment of physicians to the community.

Each hospital management team is comprised of a chief executive officer, chief financial officer and chief nursing officer. The quality of the on-site hospital management team is critical to the success of our hospitals. The on-site management team is responsible for implementing the operating plan under the guidance of SunLink's senior management team. Each hospital management team participates in a performance-based compensation program based upon the achievement of operational, clinical and financial goals set forth in the operating plan.

Each hospital management team is responsible for the day-to-day operations of its hospital. Our corporate staff provides support services, assistance, and advice to each hospital in certain areas, including physician recruiting, corporate compliance, reimbursement, information systems, human resources, accounting, cash management, finance, tax and insurance. Financial controls are maintained through the utilization of standardized policies and procedures and monitoring by corporate staff. Our hospitals have contracted with the HealthTrust Group Purchasing Organization, a purchasing group used by a large number of community hospitals, for certain supplies and equipment. We promote communication among our hospitals and management teams so that local expertise and improvements can be shared among all of our facilities.

Expansion of Services and Facilities; Maintenance of Emergency Room Operations

We seek to add services at our hospitals on an as-needed basis in order to improve access to quality healthcare services in the communities we serve, with the ultimate goal of reducing the out-migration of patients to other hospitals or alternate service providers. Additional and expanded services and programs, which may include specialty inpatient and outpatient services, are often dependent on recruiting physicians; therefore, physician recruiting goals are important to our ability to expand services. Capital investments in technology and facilities are often necessary to increase the quality and scope of services provided to the communities. Additional and expanded services and improvements add to each hospital's quality of care and reputation in the community, reducing out-migration and increasing patient referrals and revenue. SunLink seeks to maintain, in

each hospital, a quality, patient-friendly emergency department and provides emergency room services in each of our hospitals. We view the emergency room as the facility's "window to the community" and a critical component of its local service offering.

Medical Staff

The number and quality of physicians affiliated with a hospital directly affects the quality and availability of patient care and the reputation of the hospital. Physicians generally may terminate their affiliation with a hospital at any time. We seek to retain physicians of varied specialties on the medical staffs of our hospitals and to attract other qualified physicians. SunLink believes physicians refer patients to a hospital primarily on the basis of the quality of services the hospital renders to patients and physicians, the quality of other physicians on the medical staff, the location of the hospital and the quality of the hospital's facilities, equipment and employees. Accordingly, SunLink strives to provide quality facilities, equipment, employees and services for physicians and their patients.

Physician Recruiting

Each SunLink hospital management team is responsible for assessing the need for additional physicians, including the number and specialty of additional physicians needed by the hospital's community. Each of our local hospital management teams, with the assistance of outside recruiting firms, identifies and seeks to attract specific physicians to its hospital's medical staff. The hospital generally guarantees a newly recruited physician a minimum level of gross receipts during an initial period, generally one year, and assists the physician's transition into the community. The physician is required to repay some or all of the amounts paid under such guarantee if the physician leaves the community within a specified period. Our hospitals historically have not employed physicians but our hospitals do employ a number of physicians in markets where the hospital believes the use of an employed physician will allow the hospital to enhance its service offerings. Currently, of the 114 active staff physicians that have privileges at SunLink hospitals, 37 are employed by the hospitals. We continually evaluate each doctor and may terminate employment based on doctor performance and the needs of each facility.

Operating Statistics

The following table sets forth certain operating statistics for SunLink's healthcare facilities as of June 30, 2010 for the periods indicated.

	Fiscal Years Ended June 30,		
	2008	**2009**	**2010**
Hospitals owned or leased at end of period	7	7	7
Licensed hospital beds (at end of period)	402	402	402
Hospital beds in service (at end of period)	327	327	327
Nursing home beds in service (at end of period)	261	261	261
Admissions	8,865	8,397	7,486
Equivalent Admissions(1)	25,390	24,548	24,127
Average length of stay (days)(2)	3.5	3.5	3.6
Patient days	31,388	29,512	26,623
Adjusted patient days(3)	88,929	86,080	85,181
Occupancy rate (% of licensed beds)(4)	21.39%	20.11%	18.14%
Occupancy rate (% of beds in service)(5)	26.30%	24.73%	22.31%
Net patient service revenues (in thousands)	$151,372	$151,925	$154,822
Net outpatient service revenues (in thousands)	$ 74,120	$ 75,676	$ 77,700
Net revenue per equivalent admissions	$ 5,962	$ 6,189	$ 6,417
Net outpatient service revenues (as a % of net patient service revenues)	48.97%	49.81%	50.19%

(1) Equivalent admissions are a statistic used by management (and certain investors) as a general approximation of combined inpatient and outpatient volume. Equivalent admissions are computed by multiplying

admissions (inpatient volume) by the sum of gross inpatient revenues and gross outpatient revenues and dividing the result by gross inpatient revenues. The equivalent admissions computation is intended to relate outpatient revenues to the volume measure (admissions) used to measure inpatient volume resulting in a general approximation of combined inpatient and outpatient volume.
(2) Average length of stay is calculated based on the number of patient days divided by the number of admissions.
(3) Adjusted patient days have been calculated based on a revenue-based formula of multiplying actual patient days by the sum of gross inpatient revenues and gross outpatient revenues and dividing the result by gross inpatient revenues for each hospital. Adjusted patient days is a statistic (which is used generally in the industry) designed to communicate an approximate volume of service provided to inpatients and outpatients by converting total patient revenues to a number representing adjusted patient days.
(4) Percentages are calculated by dividing average daily census by the average number of licensed beds.
(5) Percentages are calculated by dividing average daily census by the average number of beds in service.

Sources of Revenue

Each SunLink hospital receives payments for patient care from Federal Medicare programs for older and disabled patients, State Medicaid programs, private insurance carriers, health maintenance organizations, preferred provider organizations, TriCare, and from employers and patients directly. See "Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations".

The following table sets forth the percentage of patient days from various payors in SunLink's healthcare facilities for the periods indicated.

	Fiscal Years Ended June 30,		
	2008	2009	2010
Source			
Medicare	70.1%	70.1%	71.8%
Medicaid	9.6%	9.1%	10.1%
Private and Other Sources	20.3%	20.8%	18.1%
Total	100.0%	100.0%	100.0%

The following table sets forth the percentage of the net patient revenues from various payors in SunLink's hospitals.

	Fiscal Years Ended June 30,		
	2008	2009	2010
Source			
Medicare	41.6%	40.6%	38.9%
Medicaid	14.1%	13.9%	12.6%
Private and Other Sources	44.3%	45.5%	48.5%
Total	100.0%	100.0%	100.0%

Hospital revenues depend upon inpatient occupancy levels, the extent to which ancillary services and therapy programs are ordered by physicians and provided to patients, and the volume of outpatient procedures. Reimbursement rates for routine inpatient services vary significantly depending on the type of service (e.g., acute care, intensive care or psychiatric care) and the geographic location of the hospital. The percentage of patient revenues attributable to outpatient services has increased in recent years, primarily as a result of medical technology advances that allow more services to be provided on an outpatient basis and from increased pressures from Medicare, Medicaid and private insurers to reduce hospital stays and provide services, where possible, on a less expensive outpatient basis.

Patients generally are not responsible for any difference between established hospital charges and amounts reimbursed for such services under Medicare, Medicaid, some private insurer plans, health maintenance organizations ("HMO*s*") or preferred provider organizations ("PPO*s*"), but are responsible to the extent of any exclusions, deductibles or co-insurance features of their coverage. The amount of such exclusions, deductibles and co-insurance has been increasing in recent years. Collection of amounts due from individuals typically is more difficult than from governmental or third-party payors.

Medicare is a Federal program that provides certain hospital and medical insurance benefits to persons age 65 and over, some disabled persons and persons with end-stage renal disease. Medicaid is a Federal-state program, administered by the states, that provides hospital and nursing home benefits to qualifying individuals who are unable to afford care. All of SunLink's hospitals are certified as healthcare services providers for persons covered by Medicare and Medicaid programs. Amounts received under the Medicare and Medicaid programs generally are significantly less than the established charges of most hospitals, including our own, for the services provided. See "Item 1. Business—Government Reimbursement Programs—Medicare/Medicaid Reimbursement".

Quality Assurance

Each SunLink hospital implements quality assurance procedures to monitor the level and quality of care provided to its patients. Each hospital has a medical director who supervises and is responsible for the quality of medical care provided and a medical advisory committee comprised of physicians who review the professional credentials of physicians applying for medical staff privileges at the hospital. The medical advisory committee also reviews and monitors surgical outcomes along with procedures performed and the quality of the logistical, medical and technological support provided to the physicians. Each hospital periodically conducts surveys of its patients, either during their stay at the hospital or subsequently by mail, to identify potential areas of improvement. Each SunLink hospital, except the leased hospital in Dexter, Missouri, is accredited by the Joint Commission of Accreditation of Healthcare Organizations, also known as JCAHO.

Competition

Among the factors which we believe influence patient selection among hospitals in our markets are:

- The appearance and functionality of the healthcare facilities;
- The quality and demeanor of professional staff and physicians; and
- The participation of the hospital in plans which pay a portion of the patient's bill.

Such factors are influenced heavily by the quality and scope of medical services, strength of referral networks, hospital location and the price of hospital services. Our hospitals may face less competition in their immediate patient service areas than would be expected in larger communities because they are the primary provider of healthcare services in their respective communities. However, our hospitals usually face competition from larger tertiary care centers and, in some cases, other rural, exurban, suburban or, in limited circumstances, urban hospitals, some of which offer more specialized services. The competing hospitals may be owned by governmental agencies or not-for-profit entities supported by endowments and charitable contributions and may be able to finance capital expenditures on a tax-exempt basis. Such governmental-owned and not-for-profit hospitals, as well as various for-profit hospitals operating in the broader service area of our hospitals, likely have greater access to financial resources than do our hospitals.

Managed Care and Efforts to Control Healthcare Costs

Each SunLink hospital is affected by its ability to negotiate service contracts with purchasers of group healthcare services. HMOs and PPOs attempt to direct and control the use of hospital services through managed care programs and to obtain discounts from hospitals' established charges. In addition, employers and traditional

health insurers increasingly are seeking to contain costs through negotiations with hospitals for managed care programs and discounts from established charges. Generally, hospitals compete for service contracts with group healthcare service purchasers on the basis of market reputation, geographic location, quality and range of services, quality of medical staff, convenience and price.

The importance of obtaining contracts with managed care organizations varies from market to market, depending on the market strength of such organizations. Management believes that, on an industry basis, managed care contracts generally are less important in rural and exurban markets than in urban and suburban markets where there is typically a higher level of managed care penetration. Nevertheless, a significant portion of hospital patients in rural and exurban communities are covered by managed care or other reimbursement programs, all of which generally pay less than established charges for hospital services.

The healthcare industry as a whole faces the challenge of continuing to provide quality patient care while managing rising costs, facing strong competition for patients, and adjusting to a continued general reduction of reimbursement rates by both private and government payors. Both private and government payors continually seek to reduce the nature and scope of services which may be reimbursed. Healthcare reform at both the Federal and state level generally is designed to reduce reimbursement rates. Changes in medical technology, existing and future legislation, regulations and interpretations, and competitive contracting for provider services by private and government payors, may require changes in our facilities, equipment, personnel, rates and/or services in the future.

The hospital industry, including all of SunLink's hospitals, continues to have significant unused capacity. Inpatient utilization, average lengths of stay and average inpatient occupancy rates continue to be affected negatively by payor-required pre-admission authorization, utilization review, and payment mechanisms designed to maximize outpatient and alternative healthcare delivery services for less acutely ill patients and to limit the cost of treating inpatients. Admissions constraints, payor pressures, and increased competition are likely to continue. Historically we have responded to such trends by adding and expanding outpatient services, upgrading facilities and equipment, offering new programs and adding or expanding certain inpatient and ancillary services. Currently we expect to continue to respond to such trends in a similar manner subject to the availability of capital resources and our evaluation of the continued utility of such historical responses.

Health Care Reform

The Patient Protection and Affordable Care Act and the Health Care Education Reconciliation Act of 2010 (collectively, the "Affordable Care Act" or "ACA") were signed into law by President Obama on March 23, 2010, and March 30, 2010, respectively. The ACA dramatically alters the United States health care system and is intended to decrease the number of uninsured Americans and reduce overall health care costs. The ACA attempts to achieve these goals by, among other things, requiring most Americans to obtain health insurance, expanding Medicare and Medicaid eligibility, reducing Medicare and Medicaid payments, including disproportionate share payments, expanding the Medicare program's use of value-based purchasing programs, tying hospital payments to the satisfaction of certain quality criteria, and bundling payments to hospitals and other providers. The ACA also contains a number of measures that are intended to reduce fraud and abuse in the Medicare and Medicaid programs, such as requiring the use of recovery audit contractors in the Medicaid program and generally prohibiting physician-owned hospitals from adding new physician owners or increasing the number of beds and operating rooms for which they are licensed. One of our facilities, Chilton Medical Center, has physician ownership and is subject to the ownership and expansion restrictions contained in the ACA. Because a majority of the measures contained in the ACA do not take effect until 2013 and 2014 and most of the rules and regulations that implement the provisions of the ACA have not been adopted or proposed, it is difficult to predict the impact the ACA will have on our facilities. However, it is possible that the implementation or interpretation of such rules and regulations or the provisions of the ACA could have an adverse effect on our financial condition and results of operations.

Government Reimbursement Programs

A significant portion of SunLink's healthcare facilities net revenues is dependent upon reimbursement from Medicare and Medicaid. Although the Federal government generally reviews payment rates under its various programs annually, changes in reimbursement rates under such programs, including Medicare and Medicaid, generally occur based on the fiscal year of the Federal government which currently begins on October 1 and ends on September 30 of each year.

Medicare Inpatient Reimbursement

The Medicare program pays hospitals under the provisions of a prospective payment system for inpatient services. Under the inpatient prospective payment system, a hospital receives a fixed amount for inpatient hospital services based on the established fixed payment amount per discharge for categories of hospital treatment, known as diagnosis related group ("DRG"). Each patient admitted for care is assigned to a DRG based upon his or her primary admitting diagnosis. Every DRG is assigned a payment rate by the government based upon the estimated intensity of hospital resources necessary to treat the average patient with that particular diagnosis. DRG payments do not consider a specific hospital's costs, but are national rates adjusted for area wage differentials and case-mix indices.

DRG rates are usually adjusted by an update factor each Federal fiscal year. The percentage increases to DRG payment rates for the last several years have been lower than the percentage increases in the related cost of goods and services provided by general hospitals. The index used to adjust the DRG payment rates is based on a price statistic, known as the CMS Market Basket Index, reduced by congressionally mandated reduction factors.

DRG rate increases were 3.6%, 2.1% and 2.35% for Federal fiscal years 2009, 2010 and 2011 respectively. The Balanced Budget Act of 1997 originally set the increase in DRG payment rates for future Federal fiscal years at rates that are based on the market basket index, which in certain years have been, and in the future may be, subject to reduction factors. In FY 2011 the market basket rate is affected by two such reduction factors. First as required by the Affordable Care Act, the market basket rate is reduced by 0.25%. Second, CMS is applying a "documentation and coding" adjustment to recoup a portion of excess aggregate payments in FY 2008 and FY 2009 that do not reflect actual increases in patients' severity of illness. Under legislation passed in 2007, CMS is required to recoup the entire amount of FY 2008 and 2009 excess spending resulting from changes in hospital coding practices no later than FY 2012. If the update factor does not adequately reflect increases in SunLink's cost of providing inpatient services, our financial condition or results of operations could be negatively affected.

The ACA made a number of changes to Medicare which include but are not limited to:

- Reduce market basket updates in Medicare payment rates for providers and incorporate adjustment for expected productivity gains. The market basket will be reduced by 0.25% for both FY 2010 and 2011, by 0.10% in FYs 2012 and 2013, by 0.30% in FY 2014, by 0.20% in 2015 and 2016, and by 0.75% in FYs 2017-2019.
- Reduce Medicare payments that would otherwise be made to hospitals by specified percentages to account for preventable hospital readmissions, effective October 1, 2012.
- Extension of the "hold harmless" provisions for small rural hospitals and sole community hospitals under the Outpatient Department reform provisions of the Medicare Modernization Act ("MMA") effective for dates of service on or after January 1, 2010 through December 31, 2010.
- Extension of the Medicare Dependent Hospital Program until September 30, 2012.
- Temporary expansion of the low volume hospital inpatient payment adjustment to include hospitals that are more than 15 miles from other healthcare facilities and have less than 1,600 discharges per year. The new temporary criteria are effective for FYs 2011 and 2012.

Each of SunLink's hospitals is an eligible hospital under one or more provisions of ACA.

Medicare Outpatient Reimbursement

Most outpatient services provided by general hospitals are reimbursed by Medicare under the outpatient prospective payment system. This outpatient prospective payment system is based on a system of Ambulatory Payment Classifications ("APC"). Each APC is designed to represent a "bundle" of outpatient services, and each APC is assigned a fully prospective reimbursement rate. Medicare pays a set price or rate for each APC group, regardless of the actual cost incurred in providing care. Each APC rate generally is subject to adjustment each year by an "update factor" based on a market basket of services index. For calendar years 2008, 2009, 2010 and 2011 the update factors were 3.3%, 3.6%, 2.1% and 2.35% respectively. If the update factor does not adequately reflect increases in SunLink's cost of providing outpatient services, our financial condition or results of operations could be negatively affected.

Medicare Disproportionate Share Payments

In addition to the standard DRG payment, the Social Security Act requires that additional Medicare payments be made to hospitals with a disproportionate share of low income patients. Beneficiary Improvement and Protection Act ("BIPA") provisions, effective for services provided on and after April 1, 2001, stipulate that rural facilities with fewer than 100 beds with a disproportionate share percentage greater than 15% will be classified as a disproportionate share hospital entitled to receive a supplemental disproportionate share payment based on gross DRG payments. Since April 1, 2004, the effective rate has been 12.0% of DRG payments. All of our hospitals were classified as disproportionate share hospitals at June 30, 2010. We estimate that Medicare disproportionate share payments represented approximately 1% of our net patient service revenues for the years ended June 30, 2010, 2009 and 2008.

Medicaid Inpatient and Outpatient Reimbursement

Each state operates a Medicaid program funded jointly by the state and the Federal government. Federal law governs the general management of the Medicaid program, but there is wide latitude for states to customize Medicaid programs to fit local needs and resources. As a result, each state Medicaid plan has its own payment formula and recipient eligibility criteria.

In the recent past, the various states in which SunLink operates hospitals have initiated increased efforts to reduce Medicaid assistance payments. These efforts and reductions often are triggered by one or more of the following factors: an increased effort by CMS to decrease the federal share of payments for Medicaid beneficiaries and significant increases in program utilization resulting from increased enrollment or budgetary pressures on the applicable states. The Federal government's percentage share of each state's medical assistance expenditures under Medicaid is determined by a formula specified in Medicaid law referred to as the Federal Medical Assistance Percentage ("FMAP").

On February 17, 2009, President Obama signed into law the "American Recovery and Reinvestment Act of 2009" ("ARRA") This law provides a temporary increase in the State FMAPs during a 9-calendar quarter recession adjustment period beginning October 1, 2008 and ending December 31, 2010.

Traditionally under the Medicaid law, each state's FMAP is determined by a formula based on the relationship of each state's per capita income to the national per capita income; the lower a state's per capita income, the higher its FMAP. The FMAP is determined for each fiscal year and applies for states' expenditures during that fiscal year. As a result of this temporary increase in the FMAP, reductions in Medicaid programs which were scheduled to take effect on July 1, 2009 in various states where SunLink operates have been postponed until January 1, 2011.

The State of Georgia, where SunLink operates three hospitals, has begun initiatives to decrease the Medicaid funds paid to providers. Georgia Medicaid pays providers for inpatient services in a manner similar to the Medicare prospective payment system in that hospitals receive a fixed fee for inpatient hospital services based on the established fixed payment amount per discharge for categories of hospital treatment, known as

DRGs. These Medicaid DRG payments do not consider a specific hospital's costs, but are statewide rates adjusted for each hospital's capital cost allotment.

Medicaid outpatient services are reimbursed with interim rates based on a facility specific cost to charge ratio. These interim payments are then adjusted subsequent to the end of the cost reporting period to an amount equal to 85.6% of the costs associated with providing care to the Medicaid outpatient population.

Beginning in Georgia's fiscal year ended June 30, 2006, Georgia implemented a Medicaid HMO program and awarded contracts to private companies for the management and processing of certain Medicaid claims. The intent of the Medicaid HMO program is to curtail utilization and reduce rates paid by the State of Georgia. All of SunLink's facilities that operate in the state of Georgia have secured contracts with all the HMO companies contracted by the state in their respective regions. Since the implementation of the Medicaid HMO program, all SunLink hospitals receive reimbursement from three different contractors instead of a single source. While the amounts of the inpatient payments have not changed since the contractors utilize the same payment rates, the timing of the receipt of the payments has changed due to the multiple payors. For outpatient services, our hospitals have contracts with the three HMO vendors and services are reimbursed at 102% of the current interim rate as determined by the Georgia Department of Community Health.

Adoption of Electronic Health Records

The Health Information Technology for Economic and Clinical Health Act (the "HITECH Act") was enacted into law on February 17, 2009 as part of the ARRA. The HITECH Act includes provisions designed to increase the use of Electronic Health Records ("EHR") by both physicians and hospitals. Beginning with federal fiscal year 2011 and extending through federal fiscal year 2016, eligible hospitals and critical access hospitals ("CAH") participating in the Medicare and Medicaid programs are eligible for reimbursement incentives based on successfully demonstrating meaningful use of its certified EHR technology. Conversely, those hospitals that do not successfully demonstrate meaningful use of EHR technology are subject to reductions in reimbursements beginning in FY 2015. On July 13, 2010, the Department of Health and Human Services ("DHHS") released final meaningful use regulations. Meaningful use criteria are divided into three distinct stages; I, II and III. The final rules specify the initial criteria for: physicians, eligible hospitals, and CAHs necessary to qualify for incentive payments; calculation of the incentive payment amounts; payment adjustments under Medicare for covered professional services and inpatient hospital services; eligible hospitals and CAHs failing to demonstrate meaningful use of certified EHR technology; and other program participation requirements.

We intend to comply with the EHR meaningful use requirements of the HITECH Act in time to qualify for the available incentive payments. We believe our compliance will result in significant costs including professional services focused on successfully designing and implementing our EHR solutions along with costs associated with the hardware and software components of the project. As a result of our prior costs expended on information technology systems, our previously existing information technology systems already possessed certain components required by our EHR project. We continue to refine our budgeted costs and the expected reimbursement associated with our EHR initiatives. We currently estimate that, at a minimum, the incremental total costs and capital expenditures incurred to comply will be recovered through improved reimbursement amounts over the projected lifecycle of this initiative, although such incremental costs and capital expenditures will, to a great degree, predate the reimbursements.

Government Reimbursement Program Administration and Adjustments

The Medicare, Medicaid and TriCare programs are subject to statutory and regulatory changes, administrative rulings, interpretations and determinations, requirements for utilization review and new governmental funding restrictions, all of which may materially increase or decrease program payments as well as affect the cost of providing services and the timing of payments to facilities.

All hospitals participating in the Medicare and Medicaid programs, whether paid on a reasonable cost basis or under a prospective payment system, are required to meet certain financial reporting requirements. Federal

and, where applicable, state regulations require the submission of annual cost reports covering the revenue, costs and expenses associated with the services provided by each hospital to Medicare beneficiaries and Medicaid recipients.

Annual cost reports required under the Medicare and Medicaid programs are subject to routine audits which may result in adjustments to the amounts ultimately determined to be due to a hospital under these reimbursement programs. These audits often require several years to reach the final determination of amounts due. Providers have rights of appeal and it is common to contest issues raised in audits of prior years' cost reports. Although the final outcome of these audits and the nature and amounts of any adjustments are difficult to predict, we believe that we have made adequate provisions in our financial statements for adjustments that may result from these audits and that final resolution of any contested issues should not have a material adverse effect upon our consolidated results of operations or financial position. Until final adjustment, however, significant issues may remain unresolved and previously determined allowances could become either inadequate or greater than ultimately required.

In 2005, CMS began using recovery audit contractors ("RACs") to detect Medicare overpayments not identified through existing claims review mechanisms. The RAC program relies on private auditing firms to examine Medicare claims filed by healthcare providers. The RAC program began as a demonstration project in three states (New York, California and Florida), but was made permanent by the Tax Relief and Health Care Act of 2006. CMS plans to expand the RAC program to additional states beginning in 2008 and to have RAC programs in place in all 50 states by 2010. We cannot predict when the RAC program will be implemented in the states in which we conduct our operations.

RACs perform post-discharge audits of medical records to identify Medicare overpayments resulting from incorrect payment amounts, non-covered services, incorrectly coded services, and duplicate services. CMS has given RACs the authority to look back at claims up to three years old, provided that the claim was paid on or after October 1, 2007. Claims identified as overpayments will be subject to the Medicare appeals process.

RACs are paid a contingency fee based on the overpayments they identify and collect. We expect that the RACs will look closely at claims submitted by our facilities in an attempt to identify possible overpayments. Although we believe the claims for reimbursement submitted to the Medicare program are accurate, we cannot predict the results of the RAC audits.

The ACA has expanded the RAC program to include Medicaid claims beginning on or after June 1, 2010.

If SunLink or any of our facilities were found to be in violation of Federal or state laws relating to Medicare, Medicaid or similar programs, the facility and SunLink could be subject to substantial monetary fines, civil penalties and exclusion from future participation in the Medicare and Medicaid programs. Any such sanctions could have a material adverse effect on our financial position and results of operations.

SPECIALTY PHARMACY OPERATIONS

Our Specialty Pharmacy Segment is operated through SunLink ScriptsRx, LLC and is a pharmacy operations segment composed of four material service lines:

1. Specialty Pharmacy Services (which are not presently conducted by any pharmacy subsidiaries in any of our healthcare facilities markets) which ordinarily include one or more of the following elements:
    - The provision of products relating to infusion therapy, enteral feeding services, oncology and chemotherapy drug administration, cardiac, diabetes, pain management, wound care, and psychiatric services;
    - Pharmaceutical or biological products administered via non-oral means, which are frequently through injectable or infusion therapies;

- Products delivered to the patients via express package or hand delivery and requiring special handling such as constant refrigeration or having an extremely limited shelf life;
- Products that generally are administered in a non-hospital setting, including the physician office, specialty clinic or patient's home;
- The provision of pharmaceuticals or biological products not managed under the traditional outpatient prescription drug benefit; and
- Therapies that require complex care, patient education and continuous monitoring.

The major conditions these drugs treat include, but are not limited to: respiratory system weakness, cancer, HIV/AIDS, hemophilia, hepatitis C, multiple sclerosis, infertility, Crohn's disease, rheumatoid arthritis, and growth hormone deficiency.

2. Institutional Pharmacy Services, consisting of the provision of specialty and non-specialty pharmaceuticals and biological products to institutional clients or to patients in institutional settings such as nursing homes, hospices, and correctional facilities;
3. Durable Medical Equipment Services, consisting primarily of products for patient-administered home care such as oxygen concentrators services, continuous positive airway pressure or CPAP machines, nebulizers, diabetes management products and prosthetics;
4. Retail Pharmacy Products and Services, consisting primarily of walk-in sales at our three distribution facilities in Louisiana of complementary products including uniforms, non-specialty pharmaceuticals, vitamins, supplements and nutritionals. We view our retail sales operations as a source of incremental revenue to us while providing value added service to our patients in the form of full service pharmacy offerings.

Certain of the service lines in our Specialty Pharmacy Segment may overlap with our healthcare operations. Likewise, institutional pharmacy services may overlap with pharmacies in our healthcare facilities.

Government Reimbursement Programs

Our Specialty Pharmacy Business is subject to certain rules implemented by the MMA and, in the future may be subject to other rules previously implemented by MMA with respect to urban providers. Regulations implementing the cost containment mandates under the MMA reduced the reimbursement for healthcare providers in urban areas for a number of products and services which are also provided by our pharmacy operations and established a competitive bidding program for certain durable medical equipment provided under Medicare Part B in urban areas. Competitive bidding is intended to further reduce reimbursement for certain products and will likely decrease the number of companies permitted to serve Medicare beneficiaries in the competitive bidding areas ("CBAs"). The Centers for Medicare & Medicaid Services had planned to implement the competitive biding program for Medicare durable medical equipment, prosthetics, orthotics, and supplies ("DMEPOS") products and services with the goal of offering beneficiaries access to quality with lower out-of-pocket costs. We were exempted under the Deficit Reduction Act of 2005 from the proposed competitive acquisition program for DMEPOS, but we cannot be sure such exemption will continue to be available in the future or that the program, if expanded in the future, would be expanded in its original form. If the program is expanded in the future, loss of the exemption could have an adverse effect on our results of operation. The program has, however, been deferred indefinitely, and whether or not the program will be implemented in the future is unknown.

The MMA also created a Medicare prescription drug benefit (which began in 2006) and a prescription drug card program. Final rules implementing the portions of the MMA relating to the new prescription drug benefit were adopted in 2005.

Under MMA Medicare Part B covered drugs and biological products that are not paid on a cost or are paid based on the average sales price ("ASP") methodology. The ASP methodology uses quarterly drug pricing data submitted to the CMS by drug manufacturers. CMS will supply contractors with the ASP drug pricing files for Medicare Part B drugs on a quarterly basis. Principal products paid under the ASP methodology include certain oncology and renal dialysis drugs. There are exceptions to this general rule which are listed in the latest ASP quarterly change request ("CR") document.

Beginning in January 2008, CMS's outpatient prospective payment system began paying for most separately payable Medicare Part B drugs administered in a hospital outpatient setting at a reimbursement level of ASP plus 5% and ASP plus 6% in other settings. Such outpatient price represented a decrease from ASP + 6% and was part of a CMS plan to transition to even lower reimbursement rates of ASP +3% in calendar year 2009.

Section 303(d) of the MMA also requires the implementation of a competitive acquisition program (the "Part B CAP") for Medicare Part B drugs and biologicals not paid on a cost or prospective payment system basis. The Part B CAP is an alternative to the ASP methodology for acquiring certain Part B drugs which are administered incident to a physician's services. Currently, the Part B CAP is a voluntary program that offers physicians the option to acquire many injectable and infused drugs they use in their practice from an approved Part B CAP vendor, thus reducing the time and cost of buying and billing for drugs. Currently, the CAP for Part B Drugs and Biologicals is only for injectable and infused drugs currently billed under Part B that are administered in a physician's office, "incident to" a physician's service.

In late 2005, CMS conducted the first round of bidding for approved Part B CAP vendors. The Part B CAP was implemented on July 1, 2006. The 2009-2011 CAP vendor bidding period concluded on February 15, 2008. CMS received several qualified bids; however, contractual issues with the successful bidders resulted in the 2009 program being postponed by CMS in September 2008. As a result, CAP drugs were not available from an approved CAP vendor for dates of service after December 31, 2008.

At least one Medicaid program has adopted, and other Medicaid programs, some states and some private payors may be expected to adopt, those aspects of the MMA that either result in or appear to result in price reductions for drugs covered by such programs. Adoption of ASP as the measure for determining reimbursement by Medicare and Medicaid programs for additional drugs sold by our specialty pharmacy operations could reduce revenue and gross margins and could materially affect our current average wholesale price ("AWP") based reimbursement structure with private payors.

We cannot assure you that the ASP reimbursement methodology will not be extended to the provision of all specialty pharmaceuticals or to the specialty pharmaceuticals most often sold by our specialty pharmacy operations or that we will be able to operate our specialty pharmacy operations profitably at either existing or at lower reimbursement rates. Likewise, we cannot assure you that the Part B CAP program will not be extended to rural or exurban areas in general or to the areas in which we operate, or may seek to operate, in particular or that we would be able to meet the qualifications to become a Part B CAP vendor either now or at any time in the future.

Competition

There are many companies which provide one or more of the healthcare operations which comprise or may compete with our pharmacy operations. For example, home healthcare business companies, which may compete with our specialty pharmacy services, our durable medical equipment services operations or both, range in size from small entrepreneurial companies to rapidly expanding companies with strategies for national operations such as Amedisys, Inc., Apria Healthcare Group, Inc., Gentiva Health Services, Inc., and Walgreen Co. Specialty pharmacy companies range from local or regional pharmacies to large public companies such as Option Care, Inc., a subsidiary of Walgreen Co., CVS Caremark Corporation, Priority Healthcare Corporation and BioScrip, Inc. Institutional pharmacy companies likewise range from local or regional pharmacies to large public companies including PharMerica Corporation and Omnicare, Inc.

Healthcare Regulation

Overview

The healthcare industry is one of the largest industries in the United States and continues to attract much legislative interest and public attention. There are many factors that are highly significant to the healthcare industry including Medicare, Medicaid, and other public and private hospital cost-containment programs, proposals to limit healthcare spending and proposals to limit prices and increase industry competition. The healthcare industry is governed by an extremely complex framework of Federal, state and local laws, rules and regulations.

There continue to be Federal and state proposals that would, and actions that do, impose limitations on government and private payments to providers, including community hospitals. In addition, there regularly are proposals to increase co-payments and deductibles from program and private patients. Hospital facilities also are affected by controls imposed by government and private payors designed to reduce admissions and lengths of stay. Such controls include what is commonly referred to as "utilization review". Utilization review entails the review of a patient's admission and course of treatment by a third party. Historically, utilization review has resulted in a decrease in certain treatments and procedures being performed. Utilization review is required in connection with the provision of care which is to be funded by Medicare and Medicaid and is also required under many managed care arrangements.

Many states have enacted, or are considering enacting, additional measures that are designed to reduce their Medicaid expenditures and to make changes to private healthcare insurance. Various states have applied, or are considering applying, for a waiver from current Medicaid regulations in order to allow them to serve some of their Medicaid participants through managed care providers. These proposals also may attempt to include coverage for some people who presently are uninsured, and generally could have the effect of reducing payments to hospitals, physicians and other providers for the same level of service provided under Medicaid.

Healthcare Facility Regulation

Certificate of Need Requirements

A number of states require approval for the purchase, construction and expansion of various healthcare facilities, including findings of need for additional or expanded healthcare facilities or services. Certificates of Need ("CONs"), which are issued by governmental agencies with jurisdiction over applicable healthcare facilities, are at times required for capital expenditures exceeding a prescribed amount, changes in bed capacity or the addition of services and certain other matters. All four states in which SunLink currently operates hospitals (Alabama, Georgia, Mississippi and Missouri) have CON laws that apply to such facilities. The two states (Georgia and Mississippi) in which SunLink currently operates nursing homes/skilled nursing facilities also have CON laws that apply to nursing homes and other skilled nursing facilities. States periodically review, modify and revise their CON laws and related regulations.

In addition, future healthcare facility acquisitions also may occur in states that require CONs. SunLink is unable to predict whether its healthcare facilities will be able to obtain any CONs that may be necessary to accomplish their business objectives in any jurisdiction where such certificates of need are required. Violation of these state laws may result in the imposition of civil sanctions or the revocation of licenses for such facilities.

Future healthcare facility acquisitions may occur in states that do not require CONs or which have less stringent CON requirements than the states in which SunLink currently operates healthcare facilities. Any healthcare facility operated by SunLink in such states may face increased competition from new or expanding facilities operated by competitors, including physicians.

Utilization Review Compliance and Hospital Governance

SunLink's healthcare facilities are subject to, and comply with, various forms of utilization review. In addition, under the Medicare prospective payment system, each state must have a peer review organization to carry out a federally mandated system of review of Medicare patient admissions, treatments and discharges in hospitals. Medical and surgical services and physician practices are supervised by committees of staff doctors at each healthcare facility; are overseen by each healthcare facility's local governing board, the primary voting members of which are physicians and community members; and are reviewed by SunLink's quality assurance personnel. The local governing boards also help maintain standards for quality care, develop long-range plans, establish, review and enforce practices and procedures and approve the credentials and disciplining of medical staff members.

Emergency Medical Treatment and Active Labor Act

All of our facilities are subject to the Emergency Medical Treatment and Active Labor Act ("EMTALA"). This federal law requires any hospital that participates in the Medicare program to conduct an appropriate medical screening examination of every person who presents himself to the hospital's emergency department for treatment and, if the patient is suffering from an emergency medical condition, to either stabilize that condition or make an appropriate transfer of the patient to a facility that can handle the condition. The obligation to screen and stabilize emergency medical conditions exists regardless of a patient's ability to pay for treatment. There are severe penalties under EMTALA if a hospital fails to screen or appropriately stabilize or transfer a patient or if the hospital delays appropriate treatment in order to first inquire about the patient's ability to pay. Penalties for violations of EMTALA include civil monetary penalties and exclusion from participation in the Medicare program. In addition, an injured patient, the patient's family or a medical facility that suffers a financial loss as a direct result of another hospital's violation of the law can bring a civil suit against the hospital.

In a final rule, effective November 10, 2003, CMS clarified when a patient is considered to be on a hospital's property for purposes of treating the person pursuant to EMTALA. CMS stated that off-campus facilities such as specialty clinics, surgery centers and other facilities that lack emergency departments should not be subject to EMTALA, but that these locations must have a plan explaining how the location should proceed in an emergency situation such as transferring the patient to the closest hospital with an emergency department. CMS further clarified that hospital-owned ambulances could transport a patient to the closest emergency department instead of to the hospital that owns the ambulance.

CMS' rules did not specify "on-call" physician requirements for an emergency department, but provided a subjective standard stating that "on-call" hospital schedules should meet the hospital's and community's needs. CMS also did not directly address a number of issues, including whether EMTALA applies to direct admissions, individuals who come to a hospital pursuant to a physician's orders for a routine procedure or individuals who present themselves at a hospital's psychiatric department or delivery/labor department, and whether screening requirements apply to patients transferred from other facilities. Although we believe that our hospitals comply with EMTALA, we cannot predict whether CMS will implement new requirements in the future and whether we will be able to comply with any new requirements.

Conversion Legislation

Many states, including some where we have hospitals and others where we may in the future acquire hospitals, have adopted legislation regarding the sale or other disposition of hospitals operated by not-for-profit entities. In other states that do not have specific legislation, state attorneys generally have demonstrated an interest in these transactions under their general obligations to protect charitable assets from waste. These legislative and administrative efforts primarily focus on the appropriate valuation of the assets divested and the use of the proceeds of the sale by the not-for-profit seller. These reviews and, in some instances, approval processes, can add additional time to the closing of a hospital acquisition. There can be no assurance that future actions on the state level will not seriously delay or even prevent our ability to acquire hospitals. If these activities are widespread, they could limit our ability to acquire additional hospitals or increase our acquisition costs.

Specialty Pharmacy Segment Regulation

Overview

Much like our healthcare facility operations, the operations of our Specialty Pharmacy Segment are subject to various Federal and state statutes and regulations governing their operations including laws and regulations with respect to operation of pharmacies, repackaging of drug products, wholesale distribution, dispensing of controlled substances, cross jurisdictional sale and distribution of pharmacy products, medical waste disposal, clinical trials and non-discriminatory access. Federal statutes and regulations govern the labeling, packaging, advertising and adulteration of prescription drugs and the dispensing of controlled substances. Federal controlled substance laws require us to register our pharmacies and repackaging facilities with the United States Drug Enforcement Administration ("DEA") and to comply with security, recordkeeping, inventory control and labeling standards in order to dispense controlled substances. Although we believe that the operations of our Specialty Pharmacy Segment have obtained the permits and/or licenses required to conduct our specialty pharmacy business as currently conducted, a failure to have the necessary permits and licenses could have a material adverse effect on our specialty pharmacy business, and our financial condition or results of operations.

Mail Order Activities

Currently the activities of our hospital pharmacies are ancillary to the operations of the facilities they serve. In contrast, the operations of our specialty pharmacy services operations are stand-alone operations that, in addition to walk-in customers, distribute pharmaceuticals through a variety of delivery methods, including by mail and express delivery services. Many states in which we deliver or may seek to deliver pharmaceuticals have laws and regulations that require out-of-state mail service pharmacies to register with, or be licensed by, the boards of pharmacy or similar regulatory bodies in those states. These states generally permit the dispensing pharmacy to follow the laws of the state within which the dispensing pharmacy is located.

However, various state Medicaid programs have enacted laws and/or adopted rules or regulations directed at restricting or prohibiting the operation of out-of-state pharmacies by, among other things, requiring compliance with all laws of the states into which the out-of-state pharmacy dispenses medications, whether or not those laws conflict with the laws of the state in which the pharmacy is located, or requiring the pharmacist-in-charge to be licensed in that state. To the extent that such laws or regulations are found to be applicable to our operations, we believe our specialty pharmacy operations comply with them in all material respects. To the extent that any of the foregoing laws or regulations prohibit or restrict the operation of mail service pharmacies and are found to be applicable to our specialty pharmacy operations, they could have an adverse effect on our ability to expand our pharmacy operations, which currently are concentrated in Louisiana. A number of state Medicaid programs prohibit the participation in such state's Medicare program by either out-of-state retail pharmacies or mail order pharmacies, whether located in-state or out-of-state.

Advertising and Marketing Regulations

There are also other statutes and regulations which may affect advertising, marketing and distribution of pharmacy products by our specialty pharmacy services. The Federal Trade Commission requires mail order sellers of goods generally to engage in truthful advertising, to stock a reasonable supply of the products to be sold, to fill mail orders within 30 days, and to provide clients with refunds when appropriate.

Healthcare Regulations of General Application

Licensing Requirements

SunLink's healthcare operations are subject to extensive Federal, state and local licensing requirements. In order to maintain their operating licenses, our healthcare facility operations must comply with strict standards concerning medical care, equipment and hygiene. Various licenses and permits also are required in order to handle radioactive materials and operate certain equipment. All licenses, provider numbers, and other permits or approvals required to perform our business operations are held by individual subsidiaries of SunLink. Each of our

hospital operating subsidiaries operates only a single hospital. All of SunLink's hospitals, except the leased hospital in Dexter, Missouri, are fully accredited by the JCAHO.

Drugs and Controlled Substances

Various licenses and permits are required by our healthcare facilities and specialty pharmacy business in order to dispense narcotics and operate pharmacies. We are required to register our pharmacy operations for permits and/or licenses with, and comply with certain operating and security standards of, the United States DEA, the Food and Drug Administration, or FDA, State Boards of Pharmacy, state health departments and other state agencies in states where we operate or may seek to operate.

State controlled substance laws require registration and compliance with state pharmacy licensure, registration or permit standards promulgated by the state's pharmacy licensing authority. Such standards often address the qualification of an applicant's personnel, the adequacy of its prescription fulfillment and inventory control practices and the adequacy of its facilities. In general, pharmacy licenses are renewed annually. Pharmacists and pharmacy technicians employed at each of our dispensing locations must also satisfy applicable state licensing requirements.

Fraud and Abuse, Anti-Kickback and Self-Referral Regulations

Participation in the Medicare and/or Medicaid programs is heavily regulated by federal statutes and regulations. If a hospital fails to comply substantially with the numerous federal laws governing a facility's activities, the hospital's participation in the Medicare and/or Medicaid programs may be terminated and/or civil or criminal penalties may be imposed. For example, a hospital may lose its ability to participate in the Medicare and/or Medicaid programs if it:

- makes claims to Medicare and/or Medicaid for services not provided or misrepresents actual services provided in order to obtain higher payments;
- pays money to induce the referral of patients or the purchase of items or services where such items or services are reimbursable under a Federal or state health program; or
- fails to provide appropriate emergency medical screening services to any individual who comes to a hospital's campus or otherwise fails to properly treat and transfer emergency patients.

Sections of the Anti-Fraud and Abuse Amendments to the Social Security Act, commonly known as the "anti-kickback" statute, prohibit certain business practices and relationships that might influence the provision and cost of healthcare services reimbursable under Medicaid, Medicare, TriCare or other healthcare programs, including the payment or receipt of remuneration for the referral of patients whose care will be funded by Medicare or other government programs. Sanctions for violating the anti-kickback statute include criminal penalties and civil sanctions, including fines and possible exclusion from future participation in government programs, such as Medicare and Medicaid. Pursuant to the Medicare and Medicaid Patient and Program Protection Act of 1987, the U.S. Department of Health and Human Services ("DHHS") issued regulations that create safe harbors under the anti-kickback statute. A given business arrangement that does not fall within an enumerated safe harbor is not *per se* illegal; however, business arrangements that fail to satisfy the applicable safe harbor criteria are subject to increased scrutiny by enforcement authorities. The Health Insurance Portability and Accountability Act of 1996 ("*HIPAA*") broadened the scope of the fraud and abuse laws by adding several criminal statutes that are not related to receipt of payments from a federal healthcare program. HIPAA created civil penalties for proscribed conduct, including upcoding and billing for medically unnecessary goods or services. These laws cover all health insurance programs, private as well as governmental. In addition, HIPAA broadened the scope of certain fraud and abuse laws, such as the anti-kickback statute, to include not just Medicare and Medicaid services, but all healthcare services reimbursed under a Federal or state healthcare program. Finally, HIPAA established enforcement mechanisms to combat fraud and abuse. These mechanisms include a bounty system where a portion of the payment recovered is returned to the government agencies, as

well as a whistleblower program, where a portion of the payment received is paid to the whistleblower. HIPAA also expanded the categories of persons that may be excluded from participation in Federal and state healthcare programs.

There is increasing scrutiny by law enforcement authorities, the Office of Inspector General of the DHHS, the courts and the U.S. Congress of arrangements between healthcare providers and potential referral sources to ensure that the arrangements are not designed as mechanisms to exchange remuneration for patient-care referrals and opportunities. Investigators also have demonstrated a willingness to look behind the formalities of a business transaction to determine the underlying purpose of payments between healthcare providers and potential referral sources. Enforcement actions have increased, as is evidenced by highly publicized enforcement investigations of certain hospital activities.

In addition, provisions of the Social Security Act, known as the Stark Act, also prohibit physicians from referring Medicare and Medicaid patients to providers of a broad range of designated health services with which the physicians or their immediate family members have ownership or certain other financial arrangements. Certain exceptions are available for employment agreements, leases, physician recruitment and certain other physician arrangements. A person making a referral, or seeking payment for services referred, in violation of the Stark Act is subject to civil monetary penalties of up to $15 for each service; restitution of any amounts received for illegally billed claims; and/or exclusion from future participation in the Medicare program, which can subject the person or entity to exclusion from future participation in state healthcare programs.

Further, if any physician or entity enters into an arrangement or scheme that the physician or entity knows or should have known has the principal purpose of assuring referrals by the physician to a particular entity, and the physician directly makes referrals to such entity, then such physician or entity could be subject to a civil monetary penalty of up to $100. Many states have adopted or are considering similar legislative proposals, some of which extend beyond the Medicaid program, to prohibit the payment or receipt of remuneration for the referral of patients and physician self-referrals regardless of the source of the payment for the care.

The Federal False Claims Act and Similar State Laws

A significant factor affecting the healthcare industry today is the use of the Federal False Claims Act, 31 U.S.C. § 3729 *et. seq*., and, in particular, actions brought by individuals on behalf of the United States under the "qui tam" or whistleblower provisions of the False Claims Act. Whistleblower provisions allow private individuals to bring actions on behalf of the United States alleging that the defendant has defrauded the Federal government.

Violations of the False Claims Act are punishable by damages equal to three times the actual damages sustained by the government, plus mandatory civil penalties of between $6 and $11 for each separate false claim. Settlements entered prior to litigation usually involve a less severe damages methodology. There are many potential bases for liability under the False Claims Act. Liability often arises when an entity "knowingly" submits a false claim for reimbursement to the Federal government. The False Claims Act defines the term "knowingly" broadly. Thus, although simple negligence will not give rise to liability under the False Claims Act, submitting a claim with reckless disregard for its truth or falsity constitutes a "knowing" submission under the False Claims Act and, therefore, will provide grounds for liability. In some cases whistleblowers or the Federal government have taken the position that providers who allegedly have violated other statutes, such as the anti-kickback statute and the Stark Act, likewise thereby have submitted false claims under the False Claims Act. A number of states have adopted their own false claims provisions as well as their own whistleblower provisions whereby a private party may file a civil lawsuit in state court on behalf of such state governments.

HIPAA Transaction, Privacy and Security Requirements

HIPAA and federal regulations issued pursuant to HIPAA contain, among other measures, provisions that have required us to implement modified or new computer systems, employee training programs and business

procedures. The federal regulations are intended to encourage electronic commerce in the healthcare industry, provide for the confidentiality and privacy of patient healthcare information and ensure the security of healthcare information.

A violation of the HIPAA regulations could result in civil money penalties of $1 per incident, up to a maximum of $25 per person, per year, per standard. HIPAA also provides for criminal penalties of up to $50 and one year in prison for knowingly and improperly obtaining or disclosing protected health information, up to $100 and five years in prison for obtaining protected health information under false pretenses and up to $250 and ten years in prison for obtaining or disclosing protected health information with the intent to sell, transfer or use such information for commercial advantage, personal gain or malicious harm. Since there is no significant history of enforcement efforts by the Federal government at this time, it is not possible to ascertain the likelihood of enforcement efforts in connection with the HIPAA regulations or the potential for fines and penalties, which may result from any violation of the regulations.

HIPAA Privacy Regulations

HIPAA privacy regulations protect the privacy of individually identifiable health information. The regulations provide increased patient control over medical records, mandate substantial financial penalties for violation of a patient's right to privacy and, with a few exceptions, require that an individual's individually identifiable health information only be used for healthcare-related purposes. These privacy standards apply to all health plans, all healthcare clearinghouses and healthcare providers, such as our facilities, that transmit health information in an electronic form in connection with standard transactions, and apply to individually identifiable information held or disclosed by a covered entity in any form. These standards impose extensive administrative requirements on our facilities and require compliance with rules governing the use and disclosure of such health information, and they require our facilities to impose these rules, by contract, on any business associate to whom we disclose such information in order to perform functions on behalf of our facilities. In addition, our facilities are subject to any state laws that are more restrictive than the privacy regulations issued under HIPAA. These laws vary by state and could impose stricter standards and additional penalties.

The HIPAA privacy regulations also require healthcare providers to implement and enforce privacy policies to ensure compliance with the regulations and standards. Under the direction of SunLink's Vice President, Technical and Compliance Services, and in conjunction with a private HIPAA consultant and HIPAA coordinators at each facility, individually tailored policies and procedures were developed and implemented and HIPAA privacy educational programs were presented to all employees and physicians at each facility prior to the compliance deadline. We believe we are in compliance with current HIPAA privacy regulations.

HIPAA Electronic Data Standards

The Administrative Simplification Provisions of HIPAA require the use of uniform electronic data transmission standards for all healthcare related electronic data interchange. These provisions are intended to streamline and encourage electronic commerce in the healthcare industry. Among other things, these provisions require healthcare facilities to use standard data formats and code sets established by the DHHS when electronically transmitting information in connection with certain transactions, including health claims and equivalent encounter information, healthcare payment and remittance advice and health claim status.

The DHHS regulations establish electronic data transmission standards that all healthcare providers and payors must use when submitting and receiving certain electronic healthcare transactions. The uniform data transmission standards are designed to enable healthcare providers to exchange billing and payment information directly with the many payors thereby eliminating data clearinghouses and simplifying the interface programs necessary to perform this function. We believe that the management information systems at our facilities and at our corporate headquarters comply with HIPAA's electronic data regulations and standards.

HIPAA Security Standards

The Administrative Simplification Provisions of HIPAA require the use of a series of security standards for the protection of electronic health information. The HIPAA security standards rule specifies a series of administrative, technical and physical security procedures for covered entities to use to assure the confidentiality of electronic protected health information. The standards are delineated into either required or addressable implementation specifications.

Under the direction of SunLink's Vice President, Technical and Compliance Services, and in conjunction with a consortium of rural hospitals, private HIPAA security consultants and HIPAA security officers at each facility, we have performed security assessments, and implemented individually tailored plans to apply required or addressable solutions and implemented a set of security policies and procedures. In addition, we developed and adopted an individually tailored comprehensive disaster contingency plan for each facility and presented a HIPAA security training program to all applicable personnel. SunLink believes it is in full compliance with all aspects of the HIPAA security regulations.

HIPAA National Provider Identifier

HIPAA also required DHHS to issue regulations establishing standard unique health identifiers for individuals, employers, health plans and healthcare providers to be used in connection with standard electronic transactions. All healthcare providers, including our facilities, were required to obtain a new National Provider Identifier ("NPI") to be used in standard transactions instead of other numerical identifiers by May 23, 2007. Our facilities have fully implemented use of a standard unique healthcare identifier by utilizing their employer identification number. DHHS has not yet issued proposed rules that establish the standard for unique health identifiers for health plans or individuals. Once these regulations are issued in final form, we expect to have approximately one to two years to become fully compliant, but cannot predict the impact of such changes at this time. We cannot predict whether our facilities may experience payment delays during the transition to the new identifiers. DHHS is currently working on the standards for identifiers for health plans; however, there are currently no proposed timelines for issuance of proposed or final rules. The issuance of proposed rules for individuals is on hold indefinitely.

Environmental Regulations

Our operations, especially our healthcare facility operations, generate medical waste that must be disposed of in compliance with federal, state and local environmental laws, rules and regulations. Our operations also generally are subject to various other environmental laws, rules and regulations.

SUNLINK OPERATIONS

Regulatory Compliance Program

SunLink maintains a company-wide compliance program under the direction of the Director of Compliance and Reimbursement. SunLink's compliance program is directed at all areas of regulatory compliance, including physician recruitment, reimbursement and cost reporting practices, and laboratory and home healthcare operations. Each hospital designates a compliance officer and develops plans to correct problems should they arise. In addition, all employees are provided with a copy of and given an introduction to SunLink's *Code of Conduct*, which includes ethical and compliance guidelines and instructions about the proper resources to utilize in order to address any concerns that may arise. Each hospital conducts annual training to re-emphasize SunLink's *Code of Conduct*. We monitor our corporate compliance program to respond to developments in healthcare regulations and the industry. SunLink also maintains a toll-free hotline to permit employees to report compliance concerns on an anonymous basis.

Professional Liability

As part of our business, we are subject to claims of liability for events occurring in the ordinary course of operations. To cover a portion of these claims, we maintain professional malpractice liability insurance and general liability insurance in amounts, which are commercially available, that we believe are sufficient for our operations, although some claims may exceed the scope or amount of the coverage in effect.

In connection with the acquisition of our initial six community hospitals, SunLink assumed responsibility for general and professional liability claims reported after February 1, 2001 (our acquisition date of such hospitals), and the previous owner retained responsibility for all known and filed claims. We have purchased claims-made commercial insurance (with a substantial self-insured retention) for coverage prior to and after the acquisition date. The recorded liability for general and professional liability risks includes an estimate of the liability for claims incurred prior to February 1, 2001, but reported after February 1, 2001 and for claims incurred after February 1, 2001. In connection with the acquisition of HealthMont and its two hospitals, SunLink assumed responsibility for all professional liability claims. HealthMont had purchased claims-made commercial insurance for claims made prior to the acquisition. The recorded liability for professional liability risks includes an estimate of liability for claims assumed at the acquisition and for claims incurred after the acquisition. These estimates are based on actuarially determined amounts. In June 2004, SunLink sold Mountainside Medical Center, one of our initial six hospitals, but retained all liabilities and obligations arising from Mountainside's operations prior to the date of such sale and purchased a 7 year, claims-made, extended discovery period (tail) policy for potential professional liability claims relating to Mountainside.

Environmental Law Compliance

We believe we are in substantial compliance with applicable federal, state and local environmental regulations. To date, compliance with federal, state and local laws regulating the discharge of material into the environment or otherwise relating to the protection of the environment have not had a material effect upon our consolidated results of operations, consolidated financial condition or competitive position. Similarly, we have not had to make material capital expenditures to comply with such regulations.

EXECUTIVE OFFICERS OF THE REGISTRANT

Our executive officers, as of September 30, 2010, their positions with the Company or its subsidiaries and their ages are as follows:

Name	Offices	Age
Robert M. Thornton, Jr.	Director, Chairman of the Board of Directors, President and Chief Executive Officer	61
Mark J. Stockslager	Chief Financial Officer and Principal Accounting Officer	51
Harry R. Alvis	Chief Operating Officer	65
George D. Shaunnessy	President – SunLink ScriptsRx, LLC	62
Jerome D. Orth	Vice President, Technical and Compliance Services	62
Jack M. Spurr, Jr	Vice President, Hospital Financial Operations	66

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

Robert M. Thornton, Jr. has been Chairman and Chief Executive Officer of SunLink Health Systems, Inc. since September 10, 1998, President since July 16, 1996 and was Chief Financial Officer from July 18, 1997 to August 31, 2002. From March 1995 to the present, Mr. Thornton has been a private investor in and 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.

Mark J. Stockslager has been Chief Financial Officer of SunLink Health Systems, Inc. since July 1, 2007. He was interim Chief Financial Office from November 6, 2006 until June 30, 2007. He has been the Principal Accounting Officer since March 11, 1998 and was Corporate Controller from November 6, 1996 to June 4, 2007. He has been associated continuously with our accounting and finance operations since June 1988 and has held various positions, including Manager of U.S. Accounting, from June 1993 until November 1996. From June 1982 through May 1988, Mr. Stockslager was employed by Price Waterhouse & Co.

Harry R. Alvis has been Chief Operating Officer of SunLink Health Systems, Inc. since September 1, 2002 and Senior Vice President of Operations of SunLink Healthcare LLC since February 1, 2001. Mr. Alvis provided turn-around operational consulting services for New America 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. From November 1987 through August 1995, Mr. Alvis was the Chief Executive Officer of Pinelake Medical Center in Mayfield, Kentucky; a facility owned by HealthTrust, Inc.

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

Jerome D. Orth was Vice President, Technical & Compliance Services for the Company from February 1, 2001 until he separated from his employment with the Company on October 1, 2010. See the Company's Current

Report on Form 8-K filed October 7, 2010. From January 1995 through January 2001, Mr. Orth was Vice President of Hospital Financial Operations for ValueMark Healthcare Systems, Inc., a privately-held owner-operator of psychiatric hospitals. From February 1987 through October 1994, Mr. Orth held various positions with Hallmark Healthcare Corporation, including Executive Director, Hospital Financial Management and Executive Director, Management Information Systems. Prior to 1987, Mr. Orth spent 12 years in various accounting, third party reimbursement and management positions with Hospital Corporation of America.

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

Item 1A. *Risk Factors*

In addition to other information contained in this Annual Report, including certain cautionary and forward-looking statements, you should carefully consider the following factors in evaluating an investment in SunLink:

Consolidated Operations Risks

SunLink was not in compliance with certain financial covenants under its primary credit agreement (the "2008 Credit Facility") at June 30, 2010. We received a waiver of the financial covenants violations for June 30, 2010. However under the waiver agreement, the termination date of the 2008 Credit Facility was shortened from April 22, 2015 to September 30, 2011, the interest rate paid for borrowed funds was increased and quarterly waiver fees were added.

We are seeking to refinance the 2008 Credit Facility with a new lender. We believe the Company will be able to refinance the borrowings, but there can be no assurance that we will be able to obtain new financing in the amount needed or at comparable terms. We believe that the Company should be able to continue in compliance with the financial covenants in our 2008 Credit Facility as revised, but there is also no assurance that we will be able to do so. Our ability to make the required debt service and increased interest payments under the 2008 Credit Facility depends on, among other things, our ability to generate sufficient cash flows from operating activities. If we are unable to generate sufficient cash flow from operations to meet our debt service commitments through, or are unable to refinance or restructure our indebtedness prior to maturity at September 30, 2011, such failure could have material adverse effects on the Company.

If our operating results decline we may not be able to generate sufficient cash flows to meet our liquidity needs.

We rely upon cash on hand, cash from operations and a revolving loan facility to fund our cash requirements for working capital, capital expenditures, commitments and payments of principal and interest on borrowings. Our ability to generate cash from operations has been negatively impacted by increased uncollectible self-pay net revenues of our Healthcare Facilities Segments and the related increased provisions for bad debts, increased salaries expenses for employed physicians and decreased patient volume at our facilities as a result of economic conditions in the locations we serve. We expect that these factors will continue to have a negative impact on our business for the foreseeable future. Further deterioration would negatively impact our results of operations and cash flows. We were not in compliance with certain financial covenants of our 2008 Credit Facility at June 30, 2010 but have received a waiver of the violations for that date. We currently have borrowing capacity under the revolving portion of the 2008 Credit Facility but there can be no assurance that we will be in compliance with the financial covenants as revised in the future. If non-compliance occurs, we may have no ability to borrow funds under the revolving portion of the 2008 Credit Facility. We are exploring a number of external liquidity generating transactions and are seeking to refinance our 2008 Credit Facility.

Additional debt or equity capital for significant capital investments may be required to achieve SunLink's operational and growth plans, the inability to access capital may affect SunLink's competitive position, reduce earnings, and negatively affect the value of your SunLink common stock.

SunLink's operational and growth plans require significant capital investments. Significant capital investments are required for on-going and planned capital improvements at existing hospitals and may be required in connection with future capital projects either in connection with existing properties or future acquired properties. SunLink's ability to make capital investments depends on numerous factors such as the availability of funds from operations and its credit facility and access to additional debt and equity financing. No assurance can be given that the necessary funds will be available. Moreover, incurrence of additional debt financing, if available, may involve additional restrictive covenants that could negatively affect SunLink's ability to operate its business in the desired manner, and raising additional equity may be dilutive to shareholders. The failure to obtain funds necessary for the realization of SunLink's plans could prevent SunLink from realizing its strategies and, in particular, could force SunLink to forego opportunities that may arise in the future. This could, in turn, have a negative impact on SunLink's competitive position.

State laws may impair SunLink's ability to acquire not-for-profit hospitals and increase their cost.

Many states have enacted or are considering enacting laws affecting sales, leases or other transactions in which control of not-for-profit hospitals is acquired by for-profit corporations. These laws, in general, include provisions relating to state attorney general approval, advance notification and community involvement. In addition, state attorneys general in states without specific legislation governing these transactions may exercise authority based upon charitable trust and other existing law. The increased legal and regulatory review of transactions involving the change of control of not-for-profit entities may increase the acquisition costs of, or limit SunLink's ability to acquire, not-for-profit hospitals.

SunLink's revenues are heavily concentrated in Georgia which makes SunLink particularly sensitive to economic and other changes in the state of Georgia.

For the fiscal year ended June 30, 2010, our three Georgia hospitals generated approximately 45% of consolidated gross revenues for the year. Accordingly, any change in the current demographic, economic, competitive or regulatory conditions in the state of Georgia could have a material adverse effect on the business, financial condition, results of operations or prospects of SunLink.

SunLink depends heavily on its management personnel and the loss of the services of one or more of SunLink's key senior management personnel could weaken SunLink's management team.

SunLink has been, and will continue to be, dependent upon the services and management experience of its executive officers. If any of SunLink's executive officers were to resign their positions or otherwise be unable to serve, SunLink's management could be weakened and operating results could be adversely affected; however, to our knowledge, no key executive personnel intend to retire or terminate their employment with SunLink in the near future.

SunLink conducts business in a heavily regulated industry; changes in regulations or violations of regulations may result in increased costs or sanctions that could reduce revenue and profitability.

The healthcare industry is subject to extensive Federal, state and local laws and regulations relating to:

- licensure;
- conduct of operations;
- ownership of facilities;
- addition of facilities and services;

- confidentiality, maintenance, and security issues associated with medical records;
- billing for services; and
- prices for services.

These laws and regulations are extremely complex and, in many instances, the industry does not have the benefit of significant regulatory or judicial interpretation of these laws and regulations, including in particular, Medicare and Medicaid anti-fraud and abuse amendments, codified in Section 1128B(b) of the Social Security Act and known as the "anti-kickback statute." This law prohibits providers and others from soliciting, receiving, offering or paying, directly or indirectly, any remuneration with the intent to generate referrals of orders for services or items reimbursable under Medicare, Medicaid, and other Federal healthcare programs.

DHHS regulations describe some of the conduct and business relationships immune from prosecution under the anti-kickback statute. The fact that a given business arrangement does not fall within one of these "safe harbor" provisions does not render the arrangement illegal. However, business arrangements of healthcare service providers that fail to satisfy the applicable safe harbor criteria risk increased scrutiny by enforcement authorities.

We have a variety of financial relationships with physicians who refer patients to our hospitals. We have contracts with physicians providing services under a variety of financial arrangements such as employment contracts and professional service agreements. We also provide financial incentives, including loans and minimum revenue guarantees, to recruit physicians into the communities served by our hospitals.

HIPAA broadened the scope of the fraud and abuse laws to include all healthcare services, whether or not they are reimbursed under a Federal program. In addition, provisions of the Social Security Act, known as the Stark Act, also prohibit physicians from referring Medicare and Medicaid patients to providers of a broad range of designated health services in which the physicians or their immediate family members have an ownership interest or certain other financial arrangements.

In addition, SunLink's facilities will continue to remain subject to any state laws that are more restrictive than the regulations issued under HIPAA, which vary by state and could impose additional penalties. In recent years, both Federal and state government agencies have announced plans for or implemented heightened and coordinated civil and criminal enforcement efforts.

Government officials charged with responsibility for enforcing healthcare laws could assert that SunLink or any of the transactions in which the Company or its subsidiaries or their predecessors is or was involved, are in violation of these laws. It is also possible that these laws ultimately could be interpreted by the courts in a manner that is different from the interpretations made by the Company or others. A determination that either SunLink or its subsidiaries or their predecessors is or was involved in a transaction that violated these laws, or the public announcement that SunLink or its subsidiaries or their predecessors is being investigated for possible violations of these laws, could have a material adverse effect on SunLink's business, financial condition, results of operations or prospects and SunLink's business reputation could suffer significantly.

The laws, rules, and regulations described above are complex and subject to interpretation. In the event of a determination that we are in violation of any of these laws, rules or regulations, or if further changes in the regulatory framework occur, our results of operations could be significantly harmed.

SunLink is and in the future could be subject to claims related to discontinued operations, hospitals sold by our HealthMont subsidiary prior to its acquisition, and claims related to the disposition of our former Mountainside Medical Center.

Over the past 21 years, SunLink has discontinued operations carried on by its former industrial and life sciences and engineering segments, and U.K. child safety segments, leisure marine, and housewares segments

and its former Mountainside Medical Center (by virtue of the sale of such facility whose original facility was one of our original hospitals). Prior to our acquisition of our HealthMont subsidiaries, HealthMont had sold two hospitals and it also disposed of one additional hospital as a condition to our acquisition of HealthMont. Contingent obligations related to discontinued 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. SunLink currently does not purchase insurance policies to reduce product liability or other discontinued operations exposures and does not anticipate it will purchase such insurance in the future. Based upon an evaluation of information currently available and consultation with legal counsel, management has not reserved any amounts for contingencies related to the discontinued operations.

SunLink is subject to potential claims for professional liability, including claims based on the acts or omissions of third parties, which claims may not be covered by insurance.

SunLink is subject to potential claims for professional liability (medical malpractice), both in connection with our current operations, as well as acquired operations. To cover these claims, we maintain professional malpractice liability insurance and general liability insurance in amounts that we believe are sufficient for our operations, although some claims may exceed the scope or amount of the coverage in effect. The assertion of a significant number of claims, either within our self-insured retention (deductible) or individually or in the aggregate in excess of available insurance, could have a material adverse effect on our results of operations or financial condition. Premiums for professional liability insurance have historically been volatile and we can not assure you that professional liability insurance will continue to be available on terms acceptable to us, if at all. The operations of our hospitals also depend on the professional services of physicians and other trained healthcare providers and technicians in the conduct of their respective operations, including independent laboratories and physicians rendering diagnostic and medical services. There can be no assurance that any legal action stemming from the act or omission of a third party provider of healthcare services, would not be brought against one of our hospitals or SunLink, resulting in significant legal expenses in order to defend against such legal action or to obtain a financial contribution from the third-party whose acts or omissions occasioned the legal action.

Risks Related to Our Healthcare Facility Operations

SunLink's success depends on its ability to maintain good relationships with the physicians at its hospitals and, if SunLink is unable to successfully maintain good relationships with physicians, admissions and outpatient revenues at SunLink hospitals may decrease and SunLink's operating performance could decline.

Because physicians generally direct the majority of hospital admissions and outpatient services, SunLink's success is, in part, dependent upon the number and quality of physicians on the medical staffs of its hospitals, the admissions and referrals practices of the physicians at our hospitals, and our ability to maintain good relations with our physicians. Many physicians at SunLink hospitals are not employees of the hospitals at which they practice and, in many of the markets that SunLink serves, most physicians have admitting privileges at other hospitals in addition to SunLink's hospitals. If SunLink is unable to successfully maintain good relationships with physicians, admissions at SunLink hospitals may decrease and SunLink's operating performance could decline.

SunLink depends heavily on its healthcare facility management personnel and the loss of the services of one or more of SunLink's key local management personnel could weaken SunLink's management team and its ability to deliver healthcare services.

SunLink's success depends on its ability to attract and retain managers at its hospitals and related health care facilities, on the ability of hospital-based officers and key employees to manage growth successfully, and on

their ability to attract and retain skilled employees. SunLink has not had any material difficulties in attracting healthcare facility management; however, if SunLink is unable to attract and retain affective local management, the operating performance of our facilities could decline.

SunLink's success depends on its ability to attract and retain qualified healthcare professionals and a shortage of qualified healthcare professionals in certain markets could weaken our ability to deliver healthcare services.

In addition to the physicians and management personnel whom SunLink employs, SunLink's operations are dependent on the efforts, ability, and experience of other healthcare professionals, such as nurses, pharmacists and lab technicians. Nurses, pharmacists, lab technicians and other healthcare professionals are generally employees of each individual SunLink hospital. SunLink's success has been, and will continue to be, influenced by its ability to attract and retain these skilled employees. A shortage of healthcare professionals in certain markets, the loss of some or all of its key employees or the inability to attract or retain sufficient numbers of qualified healthcare professionals could cause SunLink's operating performance to decline.

A significant portion of SunLink's revenue is dependent on Medicare and Medicaid payments, and possible reductions in Medicare or Medicaid payments or the implementation of other measures to reduce reimbursements may reduce our revenues.

A significant portion of SunLink's revenues are derived from the Medicare and Medicaid programs, which are highly regulated and subject to frequent and substantial changes. SunLink derived approximately 82% of its patient days and 51% of its net patient revenues from the Medicare and Medicaid programs for the year ended June 30, 2010. Previous legislative changes have resulted in, and future legislative changes may result in, limitations on and reduced levels of payment and reimbursement for a substantial portion of hospital procedures and costs.

Future healthcare legislation or other changes in the administration or interpretation of governmental healthcare programs may have a material adverse effect on SunLink's business, financial condition, results of operations or prospects.

Revenue and profitability of our healthcare facility operations, especially our community hospital operations, may be constrained by future cost containment initiatives undertaken by purchasers of healthcare services if SunLink is unable to contain costs.

Our community hospital operations derived approximately 49% of their net patient revenues for the fiscal year ended June 30, 2010 from private payors and other non-governmental sources who contributed approximately 18% of SunLink's patient days. Our hospitals have been affected by the increasing number of initiatives undertaken during the past several years by all major purchasers of healthcare, including (in addition to Federal and state governments) insurance companies and employers, to revise payment methodologies and monitor healthcare expenditures in order to contain healthcare costs. Initiatives such as managed care organizations offering prepaid and discounted medical services packages have adversely affected hospital revenue growth throughout the country and such packages represent an increasing portion of SunLink's admissions and outpatient revenues and have resulted in reduced revenue growth at our hospitals. In addition, private payers increasingly are attempting to control healthcare costs through direct contracting with hospitals to provide services on a discounted basis, increased utilization review and greater enrollment in managed care programs such as health maintenance organizations and preferred provider organizations, referred to as PPOs. If we are unable to contain costs, especially in our hospital operations, through increased operational efficiencies and the trend toward declining reimbursements and payments continues, the results of healthcare facility segment operations and cash flow will be adversely affected and the results of our consolidated operations and our consolidated cash flow similarly likely would be adversely affected.

Our healthcare facilities, especially our community hospitals, face intense competition from other hospitals and healthcare providers which directly affect our segment and consolidated revenues and profitability.

Although each of our hospitals operates in communities where they are currently the only general, acute care hospital, they do face competition from other hospitals, including larger tertiary care centers. Although these competing hospitals may be as far as 30 to 50 miles away, patients in these markets may migrate to these competing facilities as a result of local physician referrals, managed care plan incentives or personal choice.

The healthcare business is highly competitive and competition among hospitals and other healthcare providers for patients has intensified in recent years. Each of our hospitals operates in geographic areas where they compete with at least one other hospital that provides services comparable to those offered by our hospitals. Some of these competing facilities offer services, including extensive medical research and medical education programs, which are not offered by SunLink's facilities. Some of the competing hospitals are owned or operated by tax-supported governmental bodies or by private not-for-profit entities supported by endowments and charitable contributions which can finance capital expenditures on a tax-exempt basis and are exempt from sales, property, and income taxes. In some of these markets, SunLink's hospitals also face competition from other for-profit hospital companies, some of which have substantially greater resources, as well as other providers such as outpatient surgery and diagnostic centers.

The intense competition from other hospitals and other healthcare providers directly affects the market share of our community hospitals, as well as their and our revenues and profitability.

Changes in market demographics may increase competition for certain of our community hospitals.

Some of our hospitals are located in exurban areas which are becoming more suburban or metropolitan. Such markets are likely to attract additional competitors, including satellite operations of tertiary hospitals. We cannot assure you that we will have the financial resources to fund capital improvements to our existing facilities, which may face additional competition or that even if financial resources are available to us, projected operating results will justify such expenditures. An inability to fund or the infeasibility of funding capital improvements could directly or indirectly have an adverse impact on hospital revenues through lower patient utilization, increased difficulty in physician recruitment and otherwise as a result of increased competition.

SunLink's hospitals are and our other healthcare facilities may be subject to, and depend on, certificate of need laws which could affect their ability to operate profitably.

All states in which SunLink currently operates hospitals and nursing homes have laws affecting acute care hospital facilities, nursing homes, ambulatory surgery centers and the provision of various services; such laws are known as "certificate of need" laws. Under such laws, prior state approval is required for the acquisition of major medical equipment or the purchase, lease, construction, expansion, sale or closure of covered healthcare facilities, based on a determination of need for additional or expanded facilities or services. The required approval is known generally as a certificate of need or CON. A CON may be required for capital expenditures exceeding a prescribed amount, changes in hospital and nursing home bed capacity or services, and certain other matters. The failure to obtain any required CON may impair SunLink's ability to operate profitably.

In addition, the elimination or modification of CON laws in states in which SunLink operates or in the future may own hospitals and other covered healthcare facilities could subject our hospitals to greater competition making it more difficult to operate profitably.

Risk Relating to our Specialty Pharmacy Business

Our specialty pharmacy service may be adversely affected by changes in government reimbursement regulations and payment levels.

For the year ended June 30, 2010, our specialty pharmacy operations derived approximately 85% of their net revenues from government payors, principally Medicare and Medicaid. The Deficit Reduction Act of 2005 exempted rural providers of home care related services from the competitive acquisition program to which urban providers are subject.

We cannot assure you that the ASP reimbursement methodology will not be extended to the provision of all specialty pharmaceuticals or to the specialty pharmaceuticals most often sold by our specialty pharmacy operations or that we will continue to be able to operate our specialty pharmacy operations profitably at either existing or at lower reimbursement rates. Likewise, we cannot assure you that the Part B CAP program will not be extended to rural or exurban areas in general or to the areas in which we operate, or may seek to operate, in particular or that we would be able to meet the qualifications to become a Part B CAP vendor either now or at any time in the future.

Our specialty pharmacy business could be harmed by further changes in government purchasing methodologies and reimbursement rates for Medicare or Medicaid.

In addition to the impact of MMA implemented or inspired changes, in order to deal with budget shortfalls, some states are attempting to create state administered prescription drug discount plans, to limit the number of prescriptions per person that are covered, and to raise Medicaid co-pays and deductibles, and are proposing more restrictive formularies and reductions in pharmacy reimbursement rates. Any reductions in amounts reimbursable by other government programs for our services or changes in regulations governing such reimbursements could materially and adversely affect our business, financial condition and results of operations.

Our durable medical equipment service line may be adversely affected by changes in government reimbursement regulations and payment levels, especially if our durable medical equipment service line becomes subject to competitive bidding procedures.

Although we are currently exempted under the Deficit Reduction Act of 2005 from the competitive acquisition program for DMEPOS, we cannot be sure such exemption will continue to be available in the future. Loss of such exemption could have an adverse effect on our results of operation.

The operations of our specialty pharmacy services depend on a continuous supply of key products. Any shortages of key products could adversely affect our business.

Many of the biopharmaceutical products distributed by our specialty pharmacy operations are manufactured with ingredients that are susceptible to supply shortages. In addition, the manufacturers of these products may not have adequate manufacturing capability to meet rising demand. If any products we distribute are in short supply for long periods of time, this could result in a material adverse effect on our business and results of operations.

The operations of our specialty pharmacy are highly dependent on relationships with key suppliers and the loss of any of such key suppliers could adversely affect our business.

Any termination of, or adverse change in, our relationships with our key suppliers, or the loss of supply of one of our key products for any other reason, could have a material adverse effect on our business and results of operations. The largest supplier for our specialty pharmacy operations accounted for approximately 53% of Carmichael's total net sales in the fiscal year ended June 30, 2010. Our specialty pharmacy operations have a

single source of supply for many of our key products, including one product which accounted for approximately 20% of Carmichael's total net sales in the fiscal year ended June 30, 2010. In addition, we have few long-term contracts with our suppliers. Our arrangements with most of our suppliers may be canceled by either party, without cause, on minimal notice. Many of these arrangements are not governed by written agreements.

The loss of one or more of our larger institutional pharmacy customers could hurt our business by reducing the revenues and profitability of our specialty pharmacy operations.

As is customary in the institutional pharmacy industry, our specialty pharmacy operations generally do not have long-term contracts with our institutional pharmacy customers. Significant declines in the level of purchases by one or more of our larger institutional pharmacy customers could have a material adverse effect on our business and results of operations.

Our failure to maintain eligibility as a Medicare and Medicaid supplier could materially adversely affect our competitive position. Likewise, our failure to maintain and expand relationships with private payors, who can effectively determine the pharmacy source for their members, could materially adversely affect our competitive position.

Changes in average wholesale prices could reduce our pricing and margins.

Many government payors, including Medicare and Medicaid, have paid, or continue to pay, our specialty pharmacy operations directly or indirectly at a percentage off a drug's average wholesale price, or AWP. We also have contracted with some private payors to sell drugs at AWP or at a percentage off AWP. AWP for most drugs is compiled and published by several private companies, including First DataBank, Inc. Several states have filed lawsuits against pharmaceutical manufacturers for allegedly inflating reported AWP for prescription drugs. In addition, class action lawsuits have been brought by consumers against pharmaceutical manufacturers alleging overstatement of AWP. We are not responsible for such calculations, reports or payments; however, there can be no assurance that the ability of our specialty pharmacy operations to negotiate discounts from drug manufacturers will not be materially adversely affected by such investigations or lawsuits.

The federal government also has entered into settlement agreements with several drug manufacturers relating to the calculation and reporting of AWP pursuant to which the drug manufacturers, among other things, have agreed to report new pricing information, the "average sales price", to government healthcare programs. The average sales price is calculated differently than AWP.

We face numerous competitors and potential competitors in our specialty pharmacy operations, many of whom are significantly larger and who have significantly greater financial resources.

Although we believe market penetration by large national companies into our existing market for our specialty pharmacy operations has not been substantial, we cannot assure you that one of more of such companies or other healthcare companies will not seek to compete or intensify their level of competition in the rural and exurban areas in which we conduct or may seek to conduct one or more of the components of our specialty pharmacy operations.

The operations of our specialty pharmacy business may be adversely affected by industry trends in managed care contracting and consolidation.

A growing number of health plans are contracting with a single provider of specialty pharmacy services. Likewise, manufacturers may not be eager to contract with regional providers of specialty pharmacy services. If we are unable to obtain managed care contracts in the areas in which we provide specialty pharmacy services or are unable to obtain specialty pharmacy products at reasonable costs or at all, our business could be adversely affected.

The specialty pharmacy market may grow slower than expected which could adversely affect our revenues.

We cannot predict the rate of actual future growth in product availability and spending, the extent to which patient demand or spending for specialty drug services in rural or exurban areas will match national averages or whether government payors will provide reimbursement for new products under Medicare or Medicare on a timely basis or at all or at what rates. Adverse developments in any of these areas could have an adverse impact on our pharmacy business.

Other Risks

SunLink may issue additional equity in the future which could dilute the value of shares of existing shareholders.

SunLink's working capital is limited to cash generated from operations and borrowings available under our $47,000 credit facility (of which approximately $30,000 of the term loan and $0 of the revolver were outstanding and approximately $8,200 was available to borrow at June 30, 2010) and our additional debt capacity is limited. Management and the board of directors of SunLink periodically have discussed the need to raise equity in the future and periodically have considered certain transactions which might be available to SunLink to raise equity. However, SunLink has not engaged any underwriter or placement agent with respect to any potential equity offering, nor has SunLink's management made any specific proposal or recommendation to the SunLink board of directors with respect to the type of securities to be offered or the price at which any securities might be offered. Such transactions might include, among others, the sale of common shares to outsiders or the offer to existing shareholders of the right to acquire additional shares. While the board of directors has not decided to effect any equity transaction at this time, it may do so in the future. Any equity transaction could result in dilution in the value of existing shares.

Forward-looking statements in this annual report may prove inaccurate.

This document contains forward-looking statements about SunLink that are not historical facts but, rather, are statements about future expectations. Forward-looking statements in this document are based on management's current views and assumptions and may be influenced by factors that could cause actual results, performance or events to be materially different from those projected. These forward-looking statements are subject to numerous risks and uncertainties. Important factors, some of which are beyond the control of SunLink, could cause actual results, performance or events to differ materially from those in the forward-looking statements. These factors include those described above under *"Risk Factors"* and elsewhere in this report under "*Forward-Looking Statements*."

Item 1B. *Unresolved Staff Comments*

None.

Item 2. ***Properties***

Our principal properties as of the date of filing of this report are listed below:

Name or Function	Location City and State	Licensed Beds	Date of Acquisition/Lease Inception	Ownership Type
Healthcare Facilities				
Chilton Medical Center	Clanton, AL	60	February 1, 2001	Owned
Chestatee Regional Hospital	Dahlonega, GA	49	February 1, 2001	Owned
North Georgia Medical Center & Gilmer Nursing Home	Ellijay, GA	50	February 1, 2001	Owned
Trace Regional Hospital & Floy Dyer Manor Nursing Home	Houston, MS	84	February 1, 2001	Owned
Callaway Community Hospital	Fulton, MO	49	October 3, 2003	Owned
Memorial Hospital of Adel & Memorial Convalescent Center	Adel, GA	60	October 3, 2003	Owned
Missouri Southern Healthcare(1)	Dexter, MO	50	February 1, 2001	Leased
Specialty Pharmacy Operations				
Carmichael Cashway Pharmacy(2)	Crowley, LA	N/A	April 22, 2008	Leased
Carmichael Cashway Pharmacy(3)	Lafayette, LA	N/A	April 22, 2008	Leased
Carmichael Cashway Pharmacy(4)	Lake Charles, LA	N/A	April 22, 2008	Leased
Other				
Corporate Offices(5)	Atlanta, GA	N/A	June 1, 1998	Leased

(1) The lease expires in March, 2019.
(2) Lease of approximately 25,000 square feet of store location, warehouse and office space. The lease expires in April 2013 and provides for a renewal of the lease for two five year terms.
(3) Lease of approximately 5,900 square feet of store location and warehouse space. The lease expires in October 2011.
(4) Lease of approximately 4,000 square feet of store location and warehouse space. The lease expires in December 2011.
(5) Lease of approximately 4,800 square feet of office space for corporate staff. The lease was scheduled to expire in September 2009 but has been renewed through March 2015.

Item 3. ***Legal Proceedings***

On August 6, 2007, the liquidator in an insolvency proceeding in the United Kingdom involving the Company's former subsidiary, KRUG International (UK) Limited ("KRUG UK") made an application (the "Application") in the Birmingham County Court in Birmingham, England, in which the liquidator sought 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 because, among other things, 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 sought to have the court order the former directors or, in the alternative, the Company, be required to account for, repay or restore such funds to the liquidator of KRUG UK. All claims of the liquidator in the Application were settled on April 13, 2010 and are no longer outstanding with SunLink agreeing to pay approximately $1,400. SunLink's insurer under a Directors and Officers insurance policy contributed $480 with SunLink paying the difference of $920 in April 2010. The Company cancelled all preferred stock of its subsidiary held by KRUG UK.

On July 13, 2006, Piedmont Healthcare, Inc. and Piedmont Mountainside Hospital, Inc. (collectively "Piedmont") filed a Complaint in the Superior Court of Cobb County, Georgia, alleging that Southern Health

Corporation of Jasper, Inc., SunLink Healthcare LLC (formerly SunLink Healthcare Corp.) and SunLink (collectively "Defendants" or "SunLink") breached an Asset Purchase Agreement (the "Agreement") dated as of April 9, 2004, pursuant to which the Mountainside Medical Center was sold to Piedmont. On August 11, 2006, SunLink filed an Answer to the complaint asserting factual and legal defenses, along with a Counterclaim asserting breach of contract and related claims against Piedmont.

On November 21, 2008, the Superior Court of Cobb County, Georgia, entered Orders denying Piedmont's motion for partial summary judgment and grating SunLink's motion for partial summary judgment. On May 27, 2010, Piedmont paid SunLink $1,246 representing the amount of the judgment plus accrued interest minus an offset of $90 for a separate claim Piedmont was pursuing against SunLink.

SunLink is pursuing additional claims, including fees and costs. In response, Piedmont has announced they intend to seek an unspecified amount of attorneys' fees related its claim for $90 and perhaps attorneys' fees related to some other matters in the litigation. The trial court has scheduled a trial on all of the remaining claims for December 1 and 2, 2010.

On December 7, 2007, Southern Health Corporation of Ellijay, Inc. ("SHC-Ellijay") filed a Complaint against James P. Garrett and Roberta Mundy, both individually and as Fiduciary of the Estate of Randy Mundy (collectively, "Defendants"), seeking specific performance of an Option Agreement (the "Option Agreement") dated April 17, 2007, between SHC-Ellijay, Mr. Garrett, and Ms. Mundy as Executrix of the Estate of Randy Mundy for the sale of approximately 24.74 acres of real property located in Gilmer County, Georgia, and recovery of SHC-Ellijay's damages suffered as a result of Defendants' failure to close the transaction in accordance with the Option Agreement. SHC-Ellijay also stated alternative claims for breach of the Option Agreement and fraud, along with claims to recover attorney's fees and punitive damages.

In January 2008, the Mundys filed a motion to strike, motion to dismiss, answer, affirmative defenses, and a counterclaim against SHC-Ellijay. On March 3, 2009, SHC-Ellijay filed a First Amended and Restated Complaint for Damages, which effectively dropped the cause of action for specific performance of the Option Agreement. On May 7, 2009, Mr. Garrett and Ms. Mundy served a motion for summary judgment on all counts and causes of action stated in the First Amended Complaint. The court has postponed consideration of the defendants' motion for summary judgment and SHC-Ellijay's response thereto until after a discovery dispute between the parties has been resolved.

SunLink denies that it has any liability to the Mundys and intends to vigorously defend the claims asserted against SunLink by the Mundys complaint and to vigorously pursue its claims against the Mundys. While the ultimate outcome and materiality of the litigation cannot be determined, in management's opinion the litigation will not have a material adverse effect on SunLink's financial condition or results of operations.

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.

Item 4. *Submission of Matters to a Vote of Security Holders*

Not applicable.

PART II

Item 5. ***Market for Registrant's Common Equity and Related Stockholder Matters***

SunLink common stock is listed on the NYSE Amex Equities exchange. SunLink's ticker symbol is "SSY". The following table shows, for the calendar quarters indicated, based on published financial sources, the high and low sale prices of SunLink common shares as reported on the NYSE Amex Equities exchange.

	Sale Prices of SunLink Common Shares	
	High	**Low**
Fiscal 2010 (July 1, 2009—June 30, 2010)		
Fourth Quarter	$3.63	$2.17
Third Quarter	4.19	1.44
Second Quarter	2.79	1.64
First Quarter	2.50	1.83
Fiscal 2009 (July 1, 2008—June 30, 2009)		
Fourth Quarter	$2.40	$0.84
Third Quarter	1.37	0.60
Second Quarter	2.64	0.72
First Quarter	5.09	2.44

American Stock Transfer & Trust Company is the Transfer Agent and Registrar for our common shares. For all shareholder inquiries, call American Stock Transfer & Trust's Shareholder Services Department at 1-888-937-5449.

Dividends

SunLink does not currently pay cash dividends. SunLink intends to retain its earnings for use in the operation and expansion of its business and, therefore, does not anticipate declaring or paying cash dividends in the foreseeable future. Any future determination to declare or pay cash dividends will be determined by SunLink's board of directors and will depend on SunLink's financial condition, results of operations, business, prospects, capital requirements, credit agreements and such other matters as the board of directors may consider relevant.

Holders

As of June 30, 2010 there were approximately 546 registered holders of SunLink common shares.

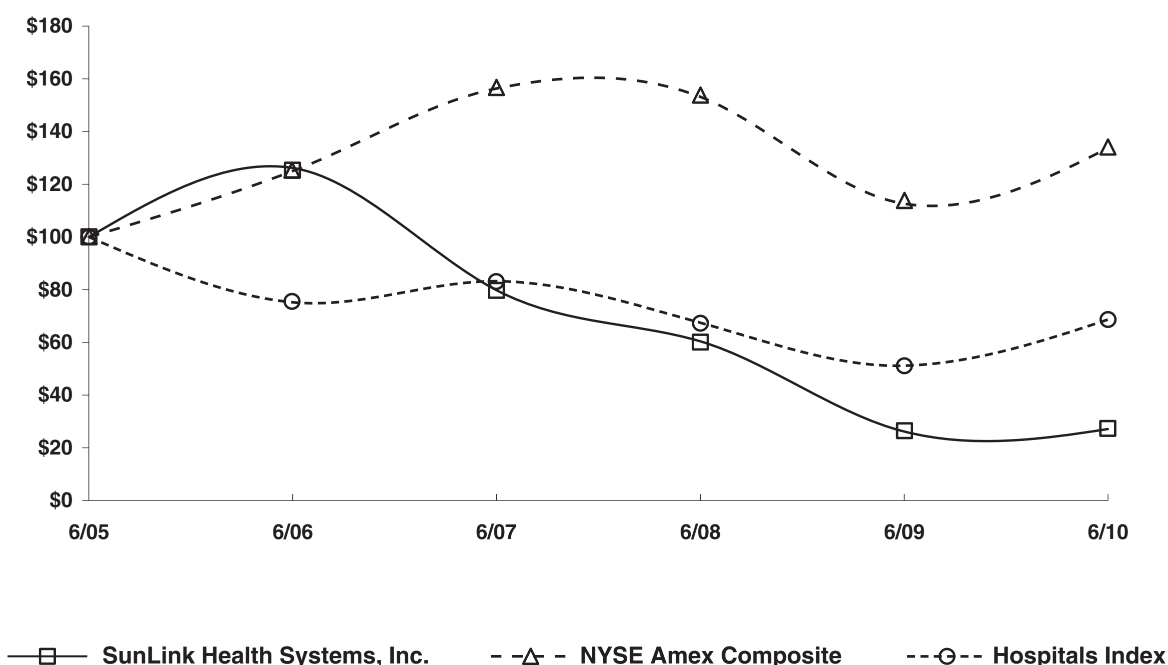
Securities Authorized for Issuance under Equity Compensation Plans

The following provides tabular disclosure of the number of securities at June 30, 2010 to be issued upon the exercise of outstanding options, the weighted average exercise price of outstanding options and the number of securities remaining available for future issuance under equity compensation plans, reported by two categories-plans that have been approved by shareholders and plans that have not been so approved:

Plan Category	(a) Number of securities to be issued upon exercise of outstanding options	(b) Weighted average exercise price of outstanding options	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders:			
2001 Outside Directors' Stock Ownership and Stock Option Plan	82,500	$2.26	0
2001 Long-term Stock Option Plan	38,125	$2.99	0
2005 Equity Incentive Plan	272,999	$6.37	437,051
	393,624	$5.26	437,051
Equity compensation plans not approved by security holders:			
None	0	0	0
Total	393,624	$5.26	437,051

Performance Graph

The following graph presents a comparison of five years cumulative total return for SunLink, the NYSE Amex Equities exchange Composite Index and a self constructed peer group. The peer group consists of Amsurg Corp., Community Health Systems Inc., Dynacq Healthcare Inc., Health Management Associations Inc., Lifepoint Hospitals Inc., Magellan Health Services Inc., Medcath Corp., Paincare Holdings Inc., Rehabcare Group Inc., Tenet Healthcare Corp., and Universal Health Services Inc. There is no assurance the Hospital Index peer group or NYSE Amex Equities Composite is comparable to SunLink, because, among other reasons, both consist of larger companies than SunLink.



*$100 invested on 6/30/05 in stock or index, including reinvestment of dividends.
Fiscal year ending June 30.

	6/05	6/06	6/07	6/08	6/09	6/10
SunLink Health Systems, Inc.	**100.00**	**125.63**	**80.20**	**61.04**	**27.54**	**28.62**
NYSE Amex Equities Composite	**100.00**	**124.41**	**155.25**	**152.02**	**112.25**	**133.12**
Hospitals Index	**100.00**	**75.66**	**83.43**	**68.03**	**52.08**	**69.21**

Item 6. *Selected Financial Data*

Selected historical financial data presented below as of and for the fiscal years ended June 30, 2006, 2007, 2008, 2009 and 2010 have been derived from the audited consolidated financial statements of SunLink. The following financial information reflects the acquisition of our two HealthMont hospitals and Carmichael and the disposition of Mountainside Medical Center. This data should be read in conjunction with “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations,” and the Consolidated Financial Statements of SunLink and the notes thereto included in Item 8 of this Annual Report.

SunLink Selected Historical Financial Data

(All amounts in thousands, except per share amounts)

	2006	2007	2008	2009	2010
Net revenues	$135,576	$143,645	$158,431	$198,055	$197,784
Earnings (loss) from continuing operations	4,181	1,577	2,009	1,067	(930)
Net earnings	3,909	1,396	1,616	912	102
Earnings (loss) per share from continuing operations:					
Basic	0.58	0.21	0.26	0.13	(0.12)
Diluted	0.53	0.20	0.26	0.13	(0.12)
Net earnings per share:					
Basic	0.54	0.19	0.21	0.11	0.01
Diluted	0.50	0.18	0.21	0.11	0.01
Total assets	74,303	77,843	111,624	107,383	98,490
Long-term debt, including current maturities	9,393	8,536	37,962	35,545	33,437
Shareholders’ equity	$ 34,352	$ 36,024	$ 40,244	$ 42,392	$ 42,692

Item 7. *Management’s Discussion and Analysis of Financial Condition and Results of Operations (all dollar amounts in thousands, except per share and revenue per equivalent admissions amounts)*

This Annual Report and the documents that are incorporated by reference in this Annual 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,” “seeks to”, “expect,” “project,” “estimate,” “anticipate,” “plan” or “continue.” These forward-looking statements are based on the current 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. For a listing and a discussion of such factors, which could cause actual results, performance and achievements to differ materially from those anticipated, see Certain Cautionary Statements—Forward Looking Information and Item 1A included elsewhere in this Annual Report on Form 10-K.

Critical Accounting Estimates

The preparation of financial statements in accordance with U.S. generally accepted accounting principles requires us to make estimates and assumptions that affect reported amounts and related disclosures. We consider an accounting estimate to be critical if:

- it requires assumptions to be made that were uncertain at the time the estimate was made; and
- changes in the estimate or different estimates that could have been made could have a material impact on our consolidated statement of earnings or financial condition.

The table of critical accounting estimates that follows is not intended to be a comprehensive list of all of our accounting policies that require estimates. We believe that of our significant accounting policies, as discussed in Note 2 of our Notes to Consolidated Financial Statements included in this Annual Report on Form 10-K for the fiscal year ended June 30, 2010, the estimates discussed below involve a higher degree of judgment and complexity.

We believe the current assumptions and other considerations used to estimate amounts reflected in our consolidated financial statements are appropriate. However, if actual experience differs from the assumptions and other considerations used in estimating amounts reflected in our consolidated financial statements, the resulting changes could have a material adverse effect on our consolidated results of operations and financial condition.

The table that follows presents information about our critical accounting estimates, as well as the effects of hypothetical changes in the material assumptions used to develop each estimate:

Balance Sheet or Income Statement Caption/Nature of Critical Estimate Item (dollar amounts in thousands, except per share)	Assumption / Approach Used (dollar amounts in thousands, except per share)	Sensitivity Analysis (dollar amounts in thousands, except per share)
Receivables-net and Provision for Bad Debts		
Receivables-net for our Healthcare Facilities Segment primarily consists of amounts due from third-party payors and patients from providing healthcare services to hospital facility patients. Receivables-net for our Specialty Pharmacy Segment primarily consists of amounts due from third-party payors; institutions such as nursing homes, home health, hospice, hospitals; pharmacy stores; Medicaid Part D program; and customers from providing pharmacy services and merchandise. Our ability to collect outstanding receivables is critical to our results of operations and cash flows. To provide for accounts receivable that could become uncollectible in the future, we establish an allowance for doubtful accounts to reduce the carrying value of such receivables to their estimated net realizable value. The primary uncertainty lies with accounts for which patients are responsible, which we refer to as patient responsibility accounts. These accounts include both amounts payable by uninsured patients and co-payments and deductibles payable by insured patients. Our allowance for doubtful accounts, included in our balance sheets as of June 30 was as follows: 2010—$16,508; and 2009—$14,961.	The largest component of bad debts in our patient accounts receivable for our healthcare facilities and Specialty Pharmacy Segments relates to accounts for which patients are responsible, which we refer to as patient responsibility accounts. These accounts include both amounts payable by uninsured patients and co-payments and deductibles payable by insured patients. In general, we attempt to collect deductibles, co-payments and self-pay accounts prior to the time of service for non-emergency care. If we do not collect these patient responsibility accounts prior to the delivery of care, the accounts are handled through our billing and collections processes. We attempt to verify each patient's insurance coverage as early as possible before a scheduled non-emergency admission or procedure, including with respect to eligibility, benefits and authorization/pre-certification requirements, in order to notify patients of the estimated amounts for which they will be responsible. We attempt to verify insurance coverage within a reasonable amount of time for all emergency room visits and non-emergency urgent admissions in compliance with the Emergency Medical Treatment and Active Labor Act.	A significant increase in our provision for doubtful accounts (as a percentage of revenues) would lower our earnings. This would adversely affect our results of operations, financial condition, liquidity and potentially our future access to capital. If net revenues during fiscal year 2010 were changed by 1%, our 2010 after-tax income from continuing operations would change by approximately $1,305 or diluted earnings per share of $0.16. This is only one example of reasonably possible sensitivity scenarios. The process of determining the allowance requires us to estimate uncollectible patient accounts that are highly uncertain and requires a high degree of judgment. It is impacted by, among other things, changes in regional economic conditions, business office operations, payor mix and trends in private and federal or state governmental healthcare coverage.

Balance Sheet or Income Statement Caption/Nature of Critical Estimate Item (dollar amounts in thousands, except per share)	Assumption / Approach Used (dollar amounts in thousands, except per share)	Sensitivity Analysis (dollar amounts in thousands, except per share)
Receivables-net and Provision for Bad Debts (continued) Our provision for bad debts, included in our results of operations, was as follows : 2010—$26,193; 2009—$23,334; and 2008—$22,013.	In general, we utilize the following steps in collecting accounts receivable: if possible, cash collection of all or a portion of deductibles, co-payments and self-pay accounts prior to or at the time service is provided; billing and follow-up with third party payors; collection calls; utilization of collection agencies; sue to collect if the patient has the means to pay and chooses not to pay; and if collection efforts are unsuccessful, write off the accounts. Our policy is to write off accounts after all collection efforts have failed, which is typically no longer than 120 days after the date of discharge of the patient or service to the patient or customer. Patient responsibility accounts represent the majority of our write-offs. All of our hospitals retain third-party collection agencies for billing and collection of delinquent accounts. At most of our hospitals, more than one collection agency is used to promote competition and improved performance. The selection of collection agencies and the timing of the referral of an account to a collection agency vary among hospitals. Generally, we do not write off accounts prior to utilizing the services of a collection agency. Once collection efforts have proven unsuccessful, an account is written off from our patient accounting system against the allowance for doubtful accounts.	

Balance Sheet or Income Statement Caption/Nature of Critical Estimate Item (dollar amounts in thousands, except per share)	Assumption / Approach Used (dollar amounts in thousands, except per share)	Sensitivity Analysis (dollar amounts in thousands, except per share)
Receivables-net and Provision for Bad Debts (continued)		
	We determine the adequacy of the allowance for doubtful accounts utilizing a number of analytical tools and benchmarks. No single statistic or measurement alone determines the adequacy of the allowance. We monitor the revenue trends by payor classification on a quarter-by-quarter basis along with the composition of our accounts receivable agings. This review is focused primarily on trends in self-pay revenues, accounts receivable, co-payment receivables and historic payment patterns. In addition, we analyze other factors such as days revenue in accounts receivable and we review admissions and charges by physicians, primarily focusing on recently recruited physicians.	

	Days Outstanding [1]							
Payor Class	**0-30**	**31-60**	**61-90**	**91-120**	**121-150**	**151-180**	**>180**	**Total**
Medicare	$4,091	$ 487	$345	$113	$ 52	$ 29	$ 219	$ 5,336
Commercial	2,741	724	193	262	150	114	426	4,610
Medicaid	1,744	213	125	119	53	72	255	2,581
Self Pay	242	238	215	106	88	105	368	1,362
Total	$8,818	$1,662	$878	$600	$343	$320	$1,268	$13,889

[1] The above table shows, as of June 30, 2010, net hospital patient accounts receivable aged from patient date of service and are grouped by classification of verified insurance coverage. The receivables are net of contractual allowances and allowance for doubtful accounts. Contractual allowances and the allowance for doubtful accounts are calculated by payor class and are not calculated by the aging of the patient billing date; therefore, these allowances have been allocated within the aging of the various payor classes based upon gross patient receivable amounts.

Balance Sheet or Income Statement Caption/Nature of Critical Estimate Item (dollar amounts in thousands, except per share)	Assumption / Approach Used (dollar amounts in thousands, except per share)	Sensitivity Analysis (dollar amounts in thousands, except per share)
Revenue recognition / Net Patient Service Revenues		
For our Healthcare Facilities Segment, we recognize revenues in the period in which services are provided. For our Specialty Pharmacy Segment, we recognize revenues in the period in which services are provided and at the time the customer takes possession of merchandise. Patient receivables primarily consist of amounts due from third-party payors and patients. Amounts we receive for treatment of patients covered by governmental programs, such as Medicare and Medicaid, and other third-party payors, such as HMOs, PPOs and other private insurers, are determined pursuant to contracts or established government rates and are generally less than our established billing rates. Accordingly, our gross revenues and patient receivables are reduced to net amounts receivable pursuant to such contracts or government payment rates through an allowance for contractual discounts. Approximately 82.2% of our revenues during 2010 relate to discounted charges. The sources of these revenues were as follows (as a percentage of total revenues): Medicare—38.9%; Medicaid—12.6%; and Commercial insurance—30.7%.	Revenues are recorded at estimated amounts due from patients, third-party payors, institutions, pharmacies, and others for healthcare and pharmacy services and goods provided net of contractual discounts pursuant to contract or government payment rates. Estimates for contractual allowances are calculated using computerized and manual processes depending on the type of payor involved. In certain hospitals, the contractual allowances are calculated by a computerized system based on payment terms for each payor. In other hospitals, the contractual allowances are estimated manually using historical collections for each type of payor. For all hospitals, certain manual estimates are used in calculating contractual allowances based on historical collections from payors that are not significant or have not entered into a contract with us. All contractual adjustments regardless of type of payor or method of calculation are reviewed and compared to actual experience on a periodic basis. Accounts receivable primarily consist of amounts due from third party payors, institutions, pharmacies, and patients. Amounts we receive for the treatment of patients covered by HMOs, PPOs and other private insurers are generally less than our established billing rates. We include contractual allowances as a reduction to revenues in our financial statements based on payor specific identification and payor specific factors for rate increases and denials.	

Balance Sheet or Income Statement Caption/Nature of Critical Estimate Item (dollar amounts in thousands, except per share)	Assumption / Approach Used (dollar amounts in thousands, except per share)	Sensitivity Analysis (dollar amounts in thousands, except per share)
Revenue recognition / Net Patient Service Revenues (continued)		
	Governmental payors	**Governmental payors**
	The majority of services performed on Medicare and Medicaid patients are reimbursed at predetermined reimbursement rates. The differences between the established billing rates (i.e., gross charges) and the predetermined reimbursement rates are recorded as contractual discounts and deducted from gross charges. Under this prospective reimbursement system, there is no adjustment or settlement of the difference between the actual cost to provide the service and the predetermined reimbursement rates. Discounts for retrospectively cost-based revenues, which were more prevalent in periods before 2000, are estimated based on historical and current factors and are adjusted in future periods when settlements of filed cost reports are received. Final settlements under all programs are subject to adjustment based on administrative review and audit by third party intermediaries, which can take several years to resolve completely.	Because the laws and regulations governing the Medicare and Medicaid programs are complex and subject to change, the estimates of contractual discounts we record could change by material amounts. Adjustments related to final settlements for revenues retrospectively increased our revenues by the following amounts: 2010—$1,163; 2009—$343; and 2008—$1,259.
	Commercial Insurance	**Commercial Insurance**
	For most managed care plans, contractual allowances estimated at the time of service are adjusted to actual contractual allowances as cash is received and claims are reconciled. We evaluate the following criteria in developing the estimated contractual allowance percentages: historical contractual allowance trends based	If our overall estimated contractual discount percentage on all of our commercial revenues during 2010 were changed by 1%, our 2010 after-tax income from continuing operations would change by approximately $314. This is only one example of reasonably possible sensitivity scenarios. The process of determining the

Balance Sheet or Income Statement Caption/Nature of Critical Estimate Item (dollar amounts in thousands, except per share)	Assumption / Approach Used (dollar amounts in thousands, except per share)	Sensitivity Analysis (dollar amounts in thousands, except per share)
Revenue recognition / Net Patient Service Revenues (continued)		
	on actual claims paid by managed care payors; review of contractual allowance information reflecting current contract terms; consideration and analysis of changes in payor mix reimbursement levels; and other issues that may impact contractual allowances.	allowance requires us to estimate the amount expected to be received and requires a high degree of judgment. It is impacted by changes in managed care contracts and other related factors.
		A significant increase in our estimate of contractual discounts would lower our earnings. This would adversely affect our results of operations, financial condition, liquidity and future access to capital.
Goodwill and accounting for business combinations		
Goodwill represents the excess of the purchase price over the fair value of the net assets (including separately identified intangible assets) of acquired companies. Our goodwill included in our consolidated balance sheets as of June 30, for the following years was as follows: 2010—$9,024; and 2009—$9,453. The goodwill resulted from the 2004 acquisition of HealthMont, Inc. and the 2008 acquisition of Carmichael.	We follow the guidance in FASB Accounting Standards Codification (“ASC”) 350, “Intangibles—Goodwill and Other,” and test goodwill and intangible assets not subject to amortization for impairment using a fair value approach. We are required to test for impairment at least annually, absent some triggering event that would accelerate an impairment assessment. On an ongoing basis, absent any impairment indicators, we perform our goodwill impairment testing as of June 30 of each year. We determine fair value using widely accepted valuation techniques, including discounted cash flow and market multiple analyses. These types of analyses require us to make assumptions and estimates regarding future cash flows, industry economic factors and the profitability of future business strategies.	We performed our annual testing for goodwill impairment as of June 30, 2010 and 2009 using the methodology described here, and determined that no goodwill impairment existed. If actual future results are not consistent with our assumptions and estimates, we may be required to record goodwill impairment charges in the future.

Balance Sheet or Income Statement Caption/Nature of Critical Estimate Item (dollar amounts in thousands, except per share)	Assumption / Approach Used (dollar amounts in thousands, except per share)	Sensitivity Analysis (dollar amounts in thousands, except per share)
Goodwill and accounting for business combinations (continued)		
	The purchase price of acquisitions is allocated to the assets acquired and liabilities assumed based upon their respective fair values and is subject to change during the twelve month period subsequent to the acquisition date. We engage independent third-party valuation firms to assist us in determining the fair values of assets acquired and liabilities assumed at the time of acquisition. Such valuations require us to make significant estimates and assumptions, including projections of future events and operating performance. Fair value estimates are derived from independent appraisals, established market values of comparable assets, or internal calculations of estimated future net cash flows. Our estimate of future cash flows is based on assumptions and projections we believe to be currently reasonable and supportable. Our assumptions take into account revenue and expense growth rates, patient volumes, changes in payor mix, and changes in legislation and other payor payment patterns.	
Professional and general liability claims		
We are subject to potential medical malpractice lawsuits and other claims as part of providing healthcare services. To mitigate a portion of this risk, we have maintained insurance for individual malpractice claims exceeding a self-insured retention amount. For the periods March 1, 2007 to February 28, 2008, March 1, 2008 to February 28, 2009, March 1, 2009 to February 2010 and March 1, 2010 to February 28, 2011 our self-	The reserve for professional and general liability claims is based upon independent actuarial calculations, which consider historical claims data, demographic considerations, severity factors and other actuarial assumptions in the determination of reserve estimates.	Actuarial calculations include a large number of variables that may significantly impact the estimate of ultimate losses recorded during a reporting period. In determining loss estimates, professional judgment is used by each actuary by selecting factors that are considered appropriate by the actuary for our specific circumstances. Changes in assumptions used by our independent actuary with respect to demographics

Balance Sheet or Income Statement Caption/Nature of Critical Estimate Item (dollar amounts in thousands, except per share)	Assumption / Approach Used (dollar amounts in thousands, except per share)	Sensitivity Analysis (dollar amounts in thousands, except per share)
Professional and general liability claims (continued)		
insured retention level was $1,000 on individual malpractice claims. Each year, we obtain quotes from various malpractice insurers with respect to the cost of obtaining medical malpractice insurance coverage. We compare these quotes to our most recent actuarially determined estimates of losses at various self-insured retention levels. Accordingly, changes in insurance costs affect the self-insurance retention level we choose each year. As insurance costs increase, we may accept a higher level of risk in self-insured retention levels. The reserve for professional and general liability claims included in our consolidated balance sheets as of June 30 was as follows: 2010—$3,343; and 2009—$3,532. The total expense for professional and general liability coverage, included in our consolidated results of operations, was as follows: 2010—$ 1,495; 2009—$ 1,962; and 2008—$1,283.	The reserve for professional and general liability claims reflects the current estimate of all outstanding losses, including incurred but not reported losses, based upon actuarial calculations as of the balance sheet date. The loss estimates included in the actuarial calculations may change in the future based upon updated facts and circumstances. We revise our reserve estimation process by obtaining independent actuarial calculations quarterly. Our estimated reserve for professional and general liability claims will be significantly affected if current and future claims differ from historical trends. While we monitor reported claims closely and consider potential outcomes as estimated by our independent actuaries when determining our professional and general liability reserves, the complexity of the claims, the extended period of time to settle the claims and the wide range of potential outcomes complicates the estimation process. In addition, certain states, including Georgia, have passed varying forms of tort reform which attempt to limit the number and types of claims and the amount of some medical malpractice awards. If enacted limitations remain in place or if similar laws are passed in the states where our hospitals are located, our loss estimates could decrease. Conversely, liberalization of the number and type of claims and damage awards permitted under any such law applicable to our operations could cause our loss estimates to increase.	and geography, industry trends, development patterns and judgmental selection of other factors may impact our recorded reserve levels and our results of operations. Changes in our initial estimates of professional and general liability claims are non-cash charges and accordingly, there would be no material impact currently on our liquidity or capital resources.

Balance Sheet or Income Statement Caption/Nature of Critical Estimate Item (dollar amounts in thousands, except per share)	Assumption / Approach Used (dollar amounts in thousands, except per share)	Sensitivity Analysis (dollar amounts in thousands, except per share)
Accounting for income taxes		
Deferred tax assets generally represent items that will result in a tax deduction in future years for which we have already recorded the tax benefit in our income statement. We assess the likelihood that deferred tax assets will be recovered from future taxable income. To the extent we believe that recovery is not probable, a valuation allowance is established. To the extent we establish a valuation allowance or increase this allowance, we must include an expense as part of the income tax provision in our results of operations. Our net deferred tax asset balance (net of valuation allowance) in our consolidated balance sheets as of June 30 for the following years was as follows: 2010—$4,505; and 2009—$3,670. Our valuation allowances for deferred tax assets in our consolidated balance sheets as of June 30 for the following years were as follows: 2010—$1,350; and 2009—$2,724. In addition, significant judgment is required in determining and assessing the impact of certain tax-related contingencies. We establish accruals when, despite our belief that our tax return positions are fully supportable, it is probable that we have incurred a loss related to tax contingencies and the loss or range of loss can be reasonably estimated. We adjust the accruals related to tax contingencies as part of our provision for income taxes in our results of operations based upon changing facts and circumstances, such as the progress of a tax audit, development	The first step in determining the deferred tax asset valuation allowance is identifying reporting jurisdictions where we have a history of tax and operating losses or are projected to have losses in future periods as a result of changes in operational performance. We then determine if a valuation allowance should be established against the deferred tax assets for that reporting jurisdiction. The second step is to determine the amount of the valuation allowance. We will generally establish a valuation allowance equal to the net deferred tax asset (deferred tax assets less deferred tax liabilities) related to the jurisdiction identified in the first step of the analysis. In certain cases, we may not reduce the valuation allowance by the amount of the deferred tax liabilities depending on the nature and timing of future taxable income attributable to deferred tax liabilities. In assessing tax contingencies, we identify tax issues that we believe may be challenged upon examination by the taxing authorities. We also assess the likelihood of sustaining tax benefits associated with tax planning strategies and reduce tax benefits based on management's judgment regarding such likelihood. We compute the tax on each contingency. We then determine the amount of loss, or reduction in tax benefits based upon the foregoing and reflect such amount as a component of the provision for income taxes in the reporting period.	Our deferred tax assets exceeded our deferred tax liabilities by $4,505 as of June 30, 2010, excluding the impact of valuation allowances. We generated federal taxable income in fiscal years 2010, 2009, 2008 and 2007. Therefore, we believe that the likelihood of our not realizing the federal tax benefit of our net deferred tax assets is remote. The IRS may propose adjustments for items we have failed to identify as tax contingencies. If the IRS were to propose and sustain assessments equal to 10% of our taxable income for 2010, we would incur approximately $332 of additional tax payments for 2010 plus applicable penalties and interest.

Balance Sheet or Income Statement Caption/Nature of Critical Estimate Item (dollar amounts in thousands, except per share)	Assumption / Approach Used (dollar amounts in thousands, except per share)	Sensitivity Analysis (dollar amounts in thousands, except per share)
Accounting for income taxes (continued)		
of industry related examination issues, as well as legislative, regulatory or judicial developments. A number of years may elapse before a particular matter, for which we have established an accrual, is audited and resolved.	During each reporting period, we assess the facts and circumstances related to recorded tax contingencies. If tax contingencies are no longer deemed probable based upon new facts and circumstances, the contingency is reflected as a reduction of the provision for income taxes in the current period.	

Financial Summary

The results of continuing operations shown in the historical summary below are for our two business segments, Healthcare Facilities and Specialty Pharmacy.

	Years Ended June 30,		
	2008	2009	2010
Net Revenues—Healthcare Facilities	$ 151,372	$ 151,925	$ 154,822
Net Revenues—Specialty Pharmacy	7,059	46,130	42,962
Total Net Revenues	158,431	198,055	197,784
Costs and expenses	(153,026)	(192,376)	(197,204)
Impairment of construction on progress			(1,202)
Gain on Sale of Home Health businesses	—	—	2,342
Operating Profit	5,405	5,679	1,720
Interest Expense	(2,114)	(3,765)	(3,471)
Interest Income	72	50	14
Gain on sale of assets	—	180	—
Loss on early retirement of debt	(267)	—	—
Earning (Loss) from Continuing Operatings Before Income Taxes	$ 3,096	$ 2,144	$ (1,737)
Healthcare Facilities Segment:			
Admissions	8,865	8,397	7,486
Equivalent Admissions	25,390	24,548	24,127
Surgeries	4,422	3,805	3,813
Revenue per Equivalent Admission	$ 5,962	$ 6,189	$ 6,417

Equivalent admissions—Equivalent admissions is used by management (and certain investors) as a general approximation of combined inpatient and outpatient volume. Equivalent admissions are computed by multiplying admissions (inpatient volume) by the sum of gross inpatient revenues and gross outpatient revenues and dividing the result by gross inpatient revenues. The equivalent admissions computation is intended to relate outpatient revenues to the volume measure (admissions) used to measure inpatient volume to result in a general approximation of combined inpatient and outpatient volume (equivalent admissions).

Results of Operations

Our net revenues are from our two business segments, healthcare facilities and specialty pharmacy.

Healthcare Facilities Segment

Net revenue for the year ended June 30, 2010 were $154,822 with a total of 24,127 equivalent admissions and revenues per equivalent admission of $6, 417 compared to net revenues of $151,925, a total of 24,548 equivalent admissions and revenues per equivalent admission of $6,189 for the year ended June 30, 2009. The 1.9% increase in net revenues for the year ended June 30, 2010 was due primarily to increased self pay and commercial and other revenues offset by decreases in Medicare and Medicaid revenues, a 2.0% increase in net revenues per equivalent admission and increased revenue from settlements and filings of prior year Medicare and Medicaid cost reports. Net revenues for the fiscal year ended June 30, 2010 included revenues of $1,163 for the settlements and filings of prior year Medicare and Medicaid cost reports compared to net revenue of $343 for the fiscal year ended June 30, 2009. Self-pay revenues increased due to fewer patients having insurance and increased deductibles and co-insurance for insured patients. Self-pay revenues increased 26.6% in the fiscal year ended June 30, 2010 and commercial revenues increased 0.7%. Net revenue for the fiscal year ended June 30,

2010 and 2009, included net revenues of $3,308 and $2,905 respectively, from state indigent care programs. Net outpatient service revenues increased $2,025, a 2.7% increase from last year to $77,700, and increased to 50.2% of net revenues from 49.8% last year.

Net revenue for the year ended June 30, 2009 were $151,925 with a total of 24,548 equivalent admissions and revenues per equivalent admission of $6,189 compared to net revenues of $151,372, a total of 25,390 equivalent admissions and revenues per equivalent admission of $5,962 for the year ended June 30, 2008. The 0.4% increase in net revenues for the year ended June 30, 2009 was due primarily to increased self pay and commercial and other revenues, a 3.8% increase in net revenues per equivalent admission, which was partially offset by decreased revenue from settlements and filings of prior year Medicare and Medicaid cost reports. Net revenues for the fiscal year ended June 30, 2009 included revenues of $343 for the settlements and filings of prior year Medicare and Medicaid cost reports compared to net revenue of $1,259 for the fiscal year ended June 30, 2008. Self-pay revenues increased due to fewer patients having insurance and increased deductibles and co-insurance for insured patients. Self-pay revenues increased 1.0% in the fiscal year ended June 30, 2009 and commercial revenues increased 1.7%. Net revenue for the fiscal year ended June 30, 2009 and 2008, included net revenues of $2,905 and $3,049 respectively, from state indigent care programs. Net outpatient service revenues increased $1,556, a 2.1% increase from last year to $75,676, and increased to 49.8% of net revenues from 48.9% last year.

The recruitment of new doctors and spending for capital improvements have contributed to the increase in net revenues in the years ended June 30, 2010, 2009 and 2008, respectively. We added three net new doctors during the fiscal year ended June 30, 2010, two net new doctors during the fiscal year ended June 30, 2009, and nine net new doctors during the fiscal year ended June 30, 2008. During the fiscal year ended June 30, 2010, SunLink expensed $669 on physician guarantees and recruiting expenses compared to $844 last year. We also have expended approximately $10,567 for capital expenditures to upgrade services and facilities since July 1, 2007. We believe the upgraded services and facilities and the new doctors contributed to the increase in net revenues for the years ended June 30, 2010 and 2009, respectively, compared to the prior years. We continue to seek increased patient volume by attracting additional physicians to our hospitals, upgrading the services offered by our hospitals on an as needed basis and improving our hospitals' physical facilities based on the availability of capital resources and our assessment of expected return on capital.

The following table sets forth the percentage of net patient revenues from various payors for the Healthcare Facilities Segment for the periods indicated:

	Fiscal Years Ended June 30,		
	2008	2009	2010
Source			
Medicare	41.6%	40.6%	38.9%
Medicaid	14.1%	13.9%	12.6%
Self Pay	14.0%	14.3%	17.8%
Commercial Insurance & Other	30.3%	31.2%	30.7%
Total	100.0%	100.0%	100.0%

The increase in net revenues for the year ended June 30, 2010 was due to increased self pay and commercial and other revenues partially offset by decreases in Medicare and Medicaid revenues. Commercial Insurance and Other increased $353, a 0.7% increase from last year to $47,631 for the fiscal year ended June 30, 2010 and decreased to 30.7% of net revenues from 31.2% last year. Self-pay revenues increased $5,783, a 26.6% increase from last year to $27,560 for the fiscal year ended June 30, 2010 and increase to 17.8% of net revenues from 14.3% last year. The changes were due primarily to increased patients without medical insurance and increased deductibles and co-insurance required for insured patients. Medicare net revenues decreased 2.5% in the fiscal year ended June 30, 2010 and decreased 1.7% as a percentage of total net revenues in fiscal year 2010 compared

to fiscal year 2009. Medicaid net revenues decreased 8.1% in the fiscal year ended June 30, 2010 and decreased 1.3% as a percentage of total net revenues in fiscal year 2010 compared to fiscal year 2009.

Specialty Pharmacy Segment

On April, 22, 2008, SunLink acquired Carmichael. Net revenues were $42,962 and $46,130 for the fiscal years ended June 30, 2010 and 2009, respectively. Fiscal 2010 net revenues decreased $3,168, or 6.9%, as compared to the fiscal prior year. The decrease resulted from a decrease in pharmacy revenue, primarily one infusion therapy drug prescribed for premature babies at high risk for lung disease, and durable medical equipment sales. The major payor for the infusion therapy drug is Louisiana Medicaid, which has reduced the utilization of the drug this fiscal year. This reduced utilization reduced Specialty Pharmacy revenue by $4,315, for fiscal year ended June 30, 2010. Net revenues for the fiscal year ended June 30, 2008 of $7,059 included only the post-acquisition period of April 23, 2008 through June 30, 2008.

Healthcare Facilities Segment Cost and Expenses

Costs and expenses for our Healthcare Facilities, including depreciation and amortization, were $149,219, $142,649, and $141,703, for the fiscal years ended June 30, 2010, 2009 and 2008, respectively.

	Cost and Expenses as of % of Net Revenue Years Ended June 30,		
	2008	**2009**	**2010**
Salaries, wages and benefits	45.9%	45.5%	45.3%
Provision for bad debts	14.5%	14.6%	15.9%
Supplies	9.6%	9.6%	9.8%
Purchased services	6.5%	6.8%	6.8%
Other operating expenses	12.0%	12.2%	14.1%
Rent and lease expense	2.0%	1.8%	1.9%
Depreciation and amortization expense	3.1%	3.2%	3.0%

Salaries, wages and benefits expense as a percentage of net revenues decreased in the year ended June 30, 2010 compared to the prior year due to decreased cost of defined contribution 401(k) plan matching expense and decreased health insurance claims in the year ended June 30, 2010 compared to the year ended June 30, 2009. Salaries, wages and benefits expense as a percentage of net revenues decreased in the year ended June 30, 2009 compared to the prior year due to a 10% increase in net revenues and as a result of our wages cost control strategy implemented in fiscal year 2008.

Provision for bad debts increased as a percentage of net revenue in the year ended June 30, 2010 compared to the prior year due to fewer people being eligible for Medicaid due to more stringent Medicaid requirements, increased coinsurance and deductible amounts that insured persons have to pay, overall decreased collections as a percentage of revenues and higher self-pay net revenues. Self-pay revenues increased $5,783 or 26.6% in the current fiscal year. Provision for bad debts increased slightly as a percentage of net revenue in the year ended June 30, 2009 compared to the prior year due to fewer people being eligible for Medicaid due to more stringent Medicaid requirements, increased coinsurance and deductible amounts that insured persons have to pay, overall decreased collections as a percentage of revenues and higher self-pay net revenues. Self-pay revenues increased $208 or 1.0% in the current fiscal year.

Other operating expenses increased as a percentage of net revenues in the year ended June 30, 2010 compared to the prior year and in the year ended June 30, 2009 compared to the prior year due to recording state provider tax as other expense in 2010. For the fiscal year ended June 30, 2010, the Missouri and Mississippi hospitals paid state provider tax totaling $2,064 which is included in Other operating expenses as opposed to Medicaid contractual allowances where they had been classified in prior years. The reclassification was done to more properly show these taxes as expenses for providing patient care.

Depreciation and amortization expense was $4,719, $4,917, and $4,752 for the years ended June 30, 2010, 2009 and, 2008, respectively. The decrease in fiscal year 2010 depreciation and amortization expense compared to fiscal year 2009 resulted from fewer fixed asset purchases in the current year as compared to prior years.

Specialty Pharmacy Segment Cost and Expenses

Cost and expenses for our Specialty Pharmacy Segment which was acquired April 22, 2008, including depreciation and amortization, was $43,383, $45,475 and $6,501 for the fiscal years ended June 30, 2010, 2009 and 2008, respectively.

	Cost and Expenses as of % of Net Revenue Years Ended June 30,		
	2008	**2009**	**2010**
Cost of goods sold	64.8%	67.1%	68.8%
Salaries, wages and benefits	18.1%	14.6%	16.3%
Provision for bad debts	1.2%	5.1%	3.5%
Supplies	0.6%	0.4%	0.6%
Purchased services	0.8%	2.4%	4.1%
Other operating expenses	3.8%	2.8%	3.2%
Rent and lease expense	0.5%	0.6%	0.6%
Depreciation and amortization expense	4.1%	3.3%	3.8%

Cost of goods as a percent of net revenue increased in the fiscal year ended June 30, 2010 as compared to the prior year due to its sales product mix. The Medicaid reimbursed selling price of certain high volume infusion therapy products decreased in fiscal 2010 as compared to last year. Salaries, wages and benefits increased as a percent of net revenue in fiscal 2010 as compared to the prior year primarily due to increased staffing in the accounting and business office areas needed for implementing and improving system controls and procedures as a result of changes in the operations implemented by management after the initial acquisition period. Purchased services increased as a percent of net revenue in fiscal 2010 as compared to the prior year due to the cost of accounting consulting services to assist in the improvement of system controls and procedures and increased legal costs. The provision for bad debts as a percent of net revenues decreased during fiscal 2010 as the improved controls and procedures in the business office increased receivable collections resulting in lower uncollectible account write-offs.

Corporate Overhead Costs and Expenses

Cost and expenses for Corporate Overhead including depreciation and amortization, was $5,065, $5,455 and $5,295 for the fiscal years ended June 30, 2010, 2009 and 2008, respectively. The decrease in the fiscal year ended June 30, 2010 from the prior year was due to decreased legal and audit expenses, directors' fees and stock option compensation expense, which was somewhat offset by increased depreciation expense. The increase in the fiscal year ended June 30, 2009 compared to the prior year was due to the additional overhead associated with specialty pharmacy business which was acquired in April 2008.

Impairment of Construction in Progress

In August 2007, the Company received final approval of a Certificate of Need ("CON") application with the State of Georgia to build a replacement hospital in Ellijay, Georgia and incurred CON application costs, land use, architecture and building consultants costs which were capitalized as construction in progress. SunLink exercised its option to purchase land in Ellijay to build the replacement hospital; however, the owner failed to close. We are currently in litigation with the owner and are pursuing a claim for damages against the owner based upon the owner's failure to close the sale as agreed. The outcome of the litigation is uncertain. During the year ended June 30, 2009, SunLink expensed $433 of costs which had been capitalized relating to the land. During the fiscal

year ended June 30, 2010, an additional $1,202 that had been incurred and capitalized prior to June 30, 2008 was expensed. These capitalized costs relate to CON, architecture and building consultants costs for the projected building site. The project to build a replacement hospital in Ellijay, Georgia at a site other than the existing hospital location is now considered remote due to the difficulty in obtaining a suitable building site. The Company is considering alternatives for upgrading the facilities at the existing hospital site.

Operating Profit

Operating profit was $1,720, $5,679, and $5,405 for the years ended June 30, 2010, 2009 and, 2008, respectively. The decrease in operating profit in the year ended June 30, 2010 compared to the prior year was due to a decrease in net revenues for the Specialty Pharmacy Segment, an increase in cost and expenses, especially provision for bad debts and other operating expenses and an increase in the impairment of construction in process offset by the gain on sale of three home health businesses included in operating profit. The increase in operating profit in the year ended June 30, 2009 compared to the prior year was due to settlements and filings of prior year Medicare and Medicaid cost reports and the reversal of a lease guarantee obligation recorded during the HealthMont acquisition for a facility the Company did not occupy.

Interest expense was $3,471, $3,765, and $2,114 for the years ended June 30, 2010, 2009 and, 2008, respectively. The increase in fiscal years 2010 and 2009 interest expense resulted from lower outstanding debt amounts during fiscal year 2010. In April 2008, we entered into a new $47,000 seven-year senior secured credit facility agreement. As of June 30, 2010, our outstanding balance on our new credit agreement was $33,386. As of June 30, 2009, our outstanding balance on our credit agreement was $35,436.

On April 23, 2008, SunLink repaid all outstanding balances and terminated the 2004 Credit Facility with a portion of the proceeds of a new $47,000 seven-year senior secured credit facility. The Company did not incur any early termination penalties in connection with the termination of the 2004 Credit Facility. A loss on early repayment of debt of approximately $267 was recorded in April 2008 as a result of writing-off remaining unamortized prepaid debt cost of the 2004 Credit Facility. The additional borrowing capacity in the new credit facility was needed for funding the acquisition of Carmichael.

We recorded income tax benefit of $807 ($458 federal tax benefit and $349 state tax benefit) for the year ended June 30, 2010 compared to income tax expense of $1,077 ($840 federal and $237 state tax expense) for the year ended June 30, 2009 and income tax expense of $1,087 ($1,053 federal and $34 state tax expense) for the year ended June 30, 2008. The $458 federal tax benefit for the year ended June 30, 2010 included a $1,495 deferred tax benefit. The $840 federal tax expense for the year ended June 30, 2009 included a $1,428 deferred tax benefit. The $1,053 federal tax expense for the year ended June 30, 2008 included an $848 deferred tax benefit. We had an estimated net operating loss carry-forward for federal income tax purposes of approximately $6,150 at June 30, 2010. Use of this net operating loss carry-forward is subject to the limitation 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. We have provided a valuation allowance for $1,350 of our $4,505 gross deferred tax asset (the majority of which is the net operating loss carry-forward for federal income tax purposes). 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.

Loss from continuing operations was $930 ($0.12 loss per fully diluted share) for the year ended June 30, 2010 compared to earnings from continuing operations of $1,067 ($0.13 per fully diluted share) for the year ended June 30, 2009 and $2,009 ($0.26 per fully diluted share) for the year ended June 30, 2008. Loss from continuing operations in fiscal 2010 resulted from an increase in cost and expenses, especially provision for bad debts, other operating expenses and the increased impairment of construction in progress offset by the gain on sale of three home health businesses included in operating profit. Earnings from continuing operations in fiscal

2009 decreased from fiscal 2008 due to increased operating profit which resulted from settlements and filings of prior year Medicare and Medicaid cost reports and the reversal of the lease guarantee obligation recorded during the Healthmont acquisition. Earnings from continuing operations in fiscal 2008 decreased from fiscal 2007 due to decreased operating profit which resulted from higher provision for bad debts and depreciation and amortization expense and a higher effective income tax rate in fiscal year 2007.

Earnings from discontinued operations of $1,032 for the year ended June 30, 2010 primarily resulted from $1,493 of earnings after tax expense attributable to our former Mountainside operations, due to the settlement of a lawsuit, $400 of losses after tax benefit attributable to our former KRUG UK operations, primarily due to legal expenses and $61 of losses after tax benefit resulting from domestic pension items. Loss from discontinued operations of $155 for the year ended June 30, 2009 primarily resulted from $77 of losses after tax benefit attributable to our former Mountainside operations, $135 of losses after tax benefit attributable to our former KRUG UK operations, primarily due to legal expenses, $33 of losses after tax benefit resulting from domestic pension items offset by earnings from discontinued operations after tax expense of $90 due to the reversal of a loss reserve recorded for the former industrial segment. Loss from discontinued operations of $393 for the year ended June 30, 2008 resulted from $149 of losses after tax benefit from Mountainside and $210 of losses after tax benefit from KRUG UK, primarily due to legal expenses, and $34 of after tax benefit losses resulting from domestic pension items.

Net earnings for the year ended June 30, 2010 were $102 ($0.01 per fully diluted share) compared to net earnings of $912 ($0.11 per fully diluted share) for the year ended June 30, 2009 and $1,616 ($0.21 per fully diluted share) for the year ended June 30, 2008.

Earnings before income taxes, interest, depreciation and amortization

Earnings before income taxes, interest, depreciation and amortization ("EBITDA") represent the sum of income before income taxes, interest, depreciation and amortization. We understand that certain industry analysts and investors generally consider EBITDA to be one measure of the liquidity of a company, and it is presented to assist analysts and investors in analyzing the ability of a company to generate cash, service debt and meet capital requirements. We believe increased EBITDA is an indicator of improved ability to service existing debt and to satisfy capital requirements. EBITDA, however, is not a measure of financial performance under accounting principles generally accepted in the United States of America and should not be considered an alternative to net income as a measure of operating performance or to cash liquidity. Because EBITDA is not a measure determined in accordance with accounting principles generally accepted in the United States of America and is thus susceptible to varying calculations, EBITDA, as presented, may not be comparable to other similarly titled measures of other corporations. Where we adjust EBITDA for non-cash charges we refer to such measurement as "Adjusted EBITDA", which we report on a company wide basis. Non-cash adjustments in Adjusted EBITDA are not intended to be identified or characterized in any respect as "non-recurring, infrequent or unusual," if we believe such charge is reasonably likely to recur within two years, or if there was a similar charge (or gain) within the prior two years. Where we report Adjusted EBITDA, we typically also report Hospital Facilities Segment Adjusted EBITDA and Specialty Pharmacy Segment Adjusted EBITDA which is the EBITDA for the applicable segments without any allocation of corporate overhead, which we report as a separate line item, and without any allocation of the non-cash adjustments, which we also report as a separate line item in Adjusted EBITDA. Net cash provided by operations for the years ended June 30, 2010, 2009 and 2008, respectively, is shown below.

	Years ended June 30,		
	2008	2009	2010
Healthcare Facilities Adjusted EBITDA	$14,921	$14,631	$10,781
Specialty Pharmacy Adjusted EBITDA	821	3,394	1,218
Corporate overhead costs	(4,825)	(5,017)	(4,616)
Taxes and net interest expense	(2,950)	(4,668)	(2,815)
Other non-cash expenses and net changes in operating assets and liabilities	(6,287)	(3,910)	(640)
Net cash provided by operations	$ 1,680	$ 4,430	$ 3,928

Liquidity and Capital Resources

We generated $3,928 of cash from operations during the year ended June 30, 2010 compared to $4,430 from operations during the prior year. Cash was generated from net earnings, non-cash expenses of impairment of construction in process and depreciation, cash provided by discontinued operations partially offset by decreased accounts payable and accrued expenses.

We generated $4,430 of cash from operations during the year ended June 30, 2009 compared to $1,680 from operations during the comparable period of the prior year. Cash was generated from net earnings, non-cash expenses of depreciation and amortization and stock-based compensation partially offset by decreased third party payor settlements, increased prepaid and other current assets, cash used in discontinued operations and income taxes paid.

SunLink expended $2,502, $1,571 and $8,337 for capital expenditures at our Healthcare Facilities and Specialty Pharmacy Segments during the years ended June 30, 2010, 2009 and 2008, respectively. These capital expenditures were primarily for new and replacement equipment and projects at our facilities. We believe an attractive, up to date physical facility assists in recruiting quality staff and physicians, as well as attracting patients.

On April 23, 2008, SunLink repaid all outstanding balances and terminated the 2004 Credit Facility with a portion of the proceeds of a new $47,000 seven-year senior secured credit facility. The Company did not incur any early termination penalties in connection with the termination of the 2004 Credit Facility. A loss on early repayment of debt of approximately $267 was recorded in April 2008 as a result of writing-off remaining unamortized prepaid debt cost of the 2004 Credit Facility.

The 2008 Credit Facility is comprised of a revolving line of credit of up to $12,000 with an interest rate at LIBOR plus 3.50% (6.25% at June 30, 2010) (the "Revolving Loan") and a $35,000 term loan with an interest rate at LIBOR plus 5.07% (7.82% at June 30, 2010) (the "Term Loan"). The Revolving Loan and the Term Loan were immediately available to the Company for borrowing at April 23, 2008. 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 $47,000 on the closing date. 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 the 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. The 2008 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.

The 2008 Credit Facility contains various terms and conditions, including operational and financial restrictions and limitations, and affirmative and negative covenants. The covenants include financial covenants measured on a quarterly basis which require SunLink to comply with maximum leverage and minimum fixed charge ratios, maximum capital expenditure amounts, collateral value to loan amount and liquidity and cash flow measures, all as defined in the 2008 Credit Facility. At June 30, 2010, SunLink was in violation of certain financial covenants of the 2008 Credit Facility. The Company has received a waiver from its lender of these financial covenants for June 30, 2010. We believe that the Company should be able to continue in compliance with the revised levels of financial covenants and terms in the 2008 Credit Facility during the fiscal year ending June 30, 2011, but there is no assurance that the Company will remain in compliance with all of the terms and conditions of the 2008 Credit Facility in subsequent fiscal quarters. As part of the waiver agreement, the termination date of the 2008 Credit Facility was changed from April 22, 2015 to September 30, 2011. It contains conditions for waivers of the violated financial covenants for the quarters ended September 30, 2010, December 31, 2011 and March 31, 2011. These conditions include reduced minimum consolidated adjusted earnings before interest, taxes deprecation and amortization amounts to be achieved. It also includes increases to the interest rate for the revolving loan to LIBOR plus 6.50% from the waiver date through November 14, 2010, LIBOR plus 7.50% from November 15, 2010 to February 15, 2011, LIBOR plus 8.50% from February 16, 2011 to May 14, 2011 and LIBOR plus 9.50% from May 15, 2011 to the September 30, 2011 termination date. It also increases the interest rate for the term loan to LIBOR plus 8.07% from the waiver date through November 14, 2010, LIBOR plus 9.07% from November 15, 2010 to February 15, 2011, LIBOR plus 10.07% from February 16, 2011 to May 14, 2011 and LIBOR plus 11.07% from May 15, 2011 to August 14, 2011. A waiver fee of 2% of the 2008 Credit Facility commitment totaling approximately $788 was due at the waiver date and additional waiver fees of 0.5% of the total 2008 Credit Facility commitment will be payable at November 15, 2010, February 15, 2011 and May 15, 2011. The waiver includes other conditions related to a February 2011 $11,000 term loan reduction covenant which may increase the interest rate for both the term loan and the revolving loan by an additional 2% over the prescribed interest rate for the remainder of the agreement. We have also agreed to reduce the revolving line of credit facility commitment from $12,000 to $9,000. If we fail to remain in compliance with the 2008 Credit Facility, we would cease to have a right to draw on the revolving line of credit facility and the lenders would, among other things, be entitled to call a default and demand repayment of the indebtedness outstanding. If SunLink or its applicable subsidiaries experience a material adverse change in their business, assets, financial condition, management or operations, or if the value of the collateral securing the 2008 Credit Facility decreases, we may be unable to draw on the credit facility.

We believe we have adequate financing and liquidity to support our current level of operations through the next twelve months under the 2008 Credit Facility if we remain in compliance with all the terms, including the terms of the waiver agreement. Failure to remain in compliance with all the terms of the 2008 Credit Facility could have adverse material effects on the Company. Our primary sources of liquidity are cash generated from continuing operations and availability under the 2008 Credit Facility. The total availability of credit under all components of the 2008 Credit Facility is keyed to the level of SunLink's earnings, which, based upon the Company's estimates, would provide for current borrowing capacity of $39,835 at June 30, 2010, of which $30,836 was outstanding under a term loan. The current remaining availability under the revolving loan of approximately $8,998 at June 30, 2010 could be adversely affected by, among other things, the risk, uncertainties and other factors listed at the beginning of Item 7, as well as lower earnings due to lower demand for our services by patients, changes in patient mix and changes in terms and levels of government and private reimbursement for services. Cash generated from operations could be adversely affected by, among other things, the risks, uncertainties and other factors listed at the beginning of Item 7, as well as lower patient demand for our services, higher operating costs (including, but not limited to, salaries, wages and benefits, provisions for bad debts, general liability and other insurance costs, cost of pharmaceutical drugs and other operating expenses) or by changes in terms and levels of government and private reimbursement for services, and the regulatory environment of the community hospital segment.

Contractual Obligations, Commitments and Contingencies

Contractual obligations related to long-term debt, non-cancelable operating leases, physician guarantees and interest on outstanding debt from continuing operations at June 30, 2010 is shown in the following table. The interest on variable interest debt is calculated at the interest rate in effect at June 30, 2010.

Payments due in:	Long-Term Debt	Subordinated Long-Term Debt	Operating Leases	Physician Guarantees	Interest on Long-Term Debt	Interest on Subordinated Long-Term Debt
1 year	$ 1,797	$ 300	$3,397	$343	$3,377	$192
2 years	29,090	300	1,320	—	946	168
3 years	—	300	805	—	—	144
4 years	—	300	511	—	—	120
5 years	—	1,350	433	—	—	108
More than 5 years	—	—	953	—	—	—
	$30,887	$2,550	$7,419	$343	$4,323	$732

At June 30, 2010 SunLink had contracts with two physicians which contained guaranteed minimum gross receipts. A physician with whom the guarantee agreement is made generally agrees to maintain his/her practice within a hospital's geographic area for a specific period (normally three years) and are 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 will be collateralized by the physician's patient accounts receivable and/or a promissory note from the physician. Included in Company's consolidated balance sheet at June 30, 2010 is a liability of $144 for two physician guarantees. SunLink expensed $669, $844, and $747, for the fiscal years ended June 30, 2010, 2009 and 2008, respectively.

The former owners of Carmichael's Cashway Pharmacy, Inc. ("Sellers") received 334,448 common shares of SunLink as partial consideration for the business. In the April 2008 acquisition agreement, SunLink was obligated to pay the difference between the market value at the acquisition date and the price per share the Sellers received for shares sold, less $1 per share, if the shares were sold within one year from the acquisition date. In March 2009, SunLink and the Sellers agreed to cancel SunLink's price guarantee obligation relating to the shares. Concurrently, SunLink and the Sellers agreed to an one-year extension of a consulting agreement with one of the Sellers, assumption by SunLink of $227 of disputed pre-acquisition expenses that SunLink determined were the obligation of the Sellers, and payment of certain post closing items.

At June 30, 2010, we had outstanding long-term debt of $30,887 of which $30,836 was incurred in connection with the 2008 Credit Facility and $51 was related to capital leases. At June 30, 2009, we had outstanding long-term debt of $32,695 of which $32,586 was incurred in connection with the 2008 Credit Facility and $108 was related to capital leases.

On August 6, 2007, the liquidator in an insolvency proceeding in the United Kingdom involving the Company's former subsidiary, KRUG International (UK) Limited ("KRUG UK") made an application (the "Application") in the Birmingham County Court in Birmingham, England, in which the liquidator sought 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 because, among other things, 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 sought to have the court order the former directors or, in the alternative, the Company, be required to account for, repay or restore such funds to the liquidator of KRUG UK. All claims of the liquidator in the Application were settled on April 13, 2010 and are no longer outstanding with SunLink agreeing to pay approximately $1,400. SunLink's insurer under a Directors and Officers insurance policy contributed $480 with SunLink paying the difference of $920 in April 2010. The Company cancelled all preferred stock of its subsidiary held by KRUG UK.

On July 13, 2006, Piedmont Healthcare, Inc. and Piedmont Mountainside Hospital, Inc. (collectively "Piedmont") filed a Complaint in the Superior Court of Cobb County, Georgia, alleging that Southern Health Corporation of Jasper, Inc., SunLink Healthcare LLC (formerly SunLink Healthcare Corp.) and SunLink (collectively "Defendants" or "SunLink") breached an Asset Purchase Agreement (the "Agreement") dated as of April 9, 2004, pursuant to which the Mountainside Medical Center was sold to Piedmont. On August 11, 2006, SunLink filed an Answer to the complaint asserting factual and legal defenses, along with a Counterclaim asserting breach of contract and related claims against Piedmont.

On November 21, 2008, the Superior Court of Cobb County, Georgia, entered Orders denying Piedmont's motion for partial summary judgment and grating SunLink's motion for partial summary judgment. On May 27, 2010, Piedmont paid SunLink $1,246 representing the amount of the judgment plus accrued interest minus an offset of $90 for a separate claim Piedmont was pursuing against SunLink.

SunLink is pursuing additional including fees and costs. In response, Piedmont has announced they intend to seek an unspecified amount of attorneys' fees related its claim for $90 and perhaps attorneys' fees related to some other matters in the litigation. The trial court has scheduled a trial on all of the remaining claims for December 1 and 2, 2010.

On December 7, 2007, Southern Health Corporation of Ellijay, Inc. ("SHC-Ellijay") filed a Complaint against James P. Garrett and Roberta Mundy, both individually and as Fiduciary of the Estate of Randy Mundy (collectively, "Defendants"), seeking specific performance of an Option Agreement (the "Option Agreement") dated April 17, 2007, between SHC-Ellijay, Mr. Garrett, and Ms. Mundy as Executrix of the Estate of Randy Mundy for the sale of approximately 24.74 acres of real property located in Gilmer County, Georgia, and recovery of SHC-Ellijay's damages suffered as a result of Defendants' failure to close the transaction in accordance with the Option Agreement. SHC-Ellijay also stated alternative claims for breach of the Option Agreement and fraud, along with claims to recover attorney's fees and punitive damages.

In January 2008, the Mundys filed a motion to strike, motion to dismiss, answer, affirmative defenses, and a counterclaim against SHC-Ellijay. On March 3, 2009, SHC-Ellijay filed a First Amended and Restated Complaint for Damages, which effectively dropped the cause of action for specific performance of the Option Agreement. On May 7, 2009, Mr. Garrett and Ms. Mundy served a motion for summary judgment on all counts and causes of action stated in the First Amended Complaint. The court has postponed consideration of the defendants' motion for summary judgment and SHC-Ellijay's response thereto until after a discovery dispute between the parties has been resolved.

SunLink denies that it has any liability to the Mundys and intends to vigorously defend the claims asserted against SunLink by the Mundys complaint and to vigorously pursue its claims against the Mundys. While the ultimate outcome and materiality of the litigation cannot be determined, in management's opinion the litigation will not have a material adverse effect on SunLink's financial condition or results of operations.

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.

Sarbanes-Oxley Section 404

This Annual Report on Form 10-K does not include an attestation report of our registered public accounting firm regarding internal controls over financial reporting. Management's report was not subject to attestation by our independent registered public accounting firm pursuant to the permanent exemption for non-accelerated filers from the internal control audit requirement of Section 404(b) of the Sarbanes-Oxley Act of 2002 ("SOX") enacted under Section 989G of the Dodd-Frank Wall Street Reform and Consumer Protection Act.

Recent Accounting Pronouncements

In June 2009, the Financial Accounting Standards Board ("FASB") issued SFAS No. 168, *The FASB Accounting Standards Codification™ and the Hierarchy of Generally Accepted Accounting Principles* (ASC 105, *Generally Accepted Accounting Principles*) "ASC 105". ASC 105 replaces SFAS No. 162, *The Hierarchy of Generally Accepted Accounting Principles*, and establishes the *FASB Accounting Standards Codification™* ("Codification") as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with GAAP. On the effective date of this Statement, the Codification will supersede all then-existing non-SEC accounting and reporting standards. ASC 105 is effective for financial statements issued for interim and annual periods ending after September 15, 2009. The Codification is effective for the accompanying interim financial statements and the principal impact is limited to disclosures as all future references to authoritative literature will be referenced in accordance with the Codification.

In September 2006, the FASB issued new accounting guidance related to fair value measurements and related disclosures. This new guidance defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. We adopted this new guidance on July 1, 2008, as required for our financial assets and financial liabilities. However, the FASB deferred the effective date of this new guidance for one year as it related to fair value measurement requirements for nonfinancial assets and liabilities that are recognized or disclosed at fair value on a recurring basis. We adopted these remaining provisions on July 1, 2009. The adoption of this accounting guidance did not have a material impact on our consolidated financial statements.

Fair Value of Financial Instruments—The recorded values of cash, receivables, and payables approximate their fair values because of the relatively short maturity of these instruments. Similarly, the fair value of SunLink's long-term debt is estimated to approximate its recorded values due to its relatively short maturity period—six years.

In December 2007, the FASB issued new accounting guidance related to the accounting for no controlling interests in consolidated financial statements. This guidance establishes accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. This guidance requires that noncontrolling interests in subsidiaries be reported in the equity section of the controlling company's balance sheet. It also changes the manner in which the net income of the subsidiary is reported and disclosed in the

controlling company's income statement. This guidance is effective for fiscal years beginning after December 15, 2008. We adopted this guidance on July 1, 2009 and reclassified minority interest to the equity section of the balance sheet. (See Note 12—Noncontrolling Interest)

Management, in accordance with guidance regarding subsequent events, has evaluated subsequent events for recognition or disclosure through the date these financial statements were issued.

Related Party Transactions

A director of the Company and the Company's secretary are members of two different law firms, each of which provides services to SunLink. We have paid an aggregate of $596, $585, and $1,154 to these law firms in the fiscal years ended June 30, 2010, 2009 and 2008, respectively.

Inflation

During periods of inflation and labor shortages, employee wages increase and suppliers pass along rising costs to us in the form of higher prices for their supplies and services. We have not always been able to offset increases in operating costs by increasing prices for our services and products or by implementing cost control measures. We are unable to predict our ability to control future cost increases or offset future cost increases by passing along the increased cost to customers.

Item 7A. ***Quantitative and Qualitative Disclosures about Market Risk***

We are exposed to interest rate changes, primarily as a result of borrowing under the 2008 Credit Facility completed in April 2008. There were $30,836 in borrowings outstanding at June 30, 2010 under the 2008 Credit Facility at interest rates based upon LIBOR. A one percent change in the LIBOR rate would result in a change in interest expense of $308 on an annual basis. No action has been taken to mitigate our exposure to interest rate market risk and we are not a party to any interest rate market risk management activities.

Item 8. ***Financial Statements and Supplementary Data***

Index to Financial Statements and Supplementary Data

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Consolidated Balance Sheets—as of June 30, 2010 and 2009	F-2
Consolidated Statements of Earnings—for each of the three years ended June 30, 2010, 2009 and 2008	F-3
Consolidated Statements of Shareholders' Equity—for each of the three years ended June 30, 2010, 2009 and 2008	F-4
Consolidated Statements of Cash Flows—for each of the three years ended June 30, 2010, 2009 and 2008	F-5
Notes to Consolidated Financial Statements—as of and for the years ended June 30, 2010, 2009 and 2008	F-6

Item 9. ***Changes in and Disagreements with Accountants on Accounting and Financial Disclosure***

None.

Item 9A. ***Controls and Procedures***

Disclosure Controls and Procedures—We maintain controls and procedures designed to ensure that we are able to collect the information we are required to disclose in the reports we file with the SEC, and to process, summarize and disclose this information within the time periods specified in the rules of the SEC.

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities and Exchange Act of 1934 as amended (the "Exchange Act")) as of the end of the period covered by this report. Based on such evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of such period, our disclosure controls and procedures are effective.

Remediation of Previously Disclosed Material Weakness—As reported in our Annual Report on Form 10-K for the year ended June 30, 2009, SunLink's Management and SunLink's Audit Committee previously concluded that a material weakness existed related to our internal control over financial reporting at our Carmichael subsidiary. Specifically, the Carmichael post-acquisition financial statements contained errors that include accounting for accounts receivable, contractual allowances, revenues and provision for bad debts.

Management has concluded that, as of June 30, 2010, the previously reported material weakness has been remediated. The remediation actions taken during 2010 included the following:

- The Company hired a new Chief Financial Officer for Carmichael ("Carmichael CFO") with experience with reporting on internal controls in accordance with SOX. Based on management's assessment and testing thereof, the Company believes the actions taken by the Carmichael CFO established effective and functioning internal controls over financial reporting and other areas at Carmichael's.
- The Company hired a Controller for Carmichael to assist the Carmichael CFO in establishing, monitoring and improving the established internal controls.
- Members of Corporate management assessed the established internal controls over financial reporting and performed testing procedures, concluding that the internal controls of financial reporting were adequate and effective as of June 30, 2010.

Based on these remediation actions, we believe SunLink's internal control over financial reporting at Carmichael has been remediated and no longer constitutes a material weakness in internal control over financial reporting.

Changes in Internal Controls over Financial Reporting—Other than the remediation of previously disclosed material weakness discussed previously, there were no changes to our internal control over financial reporting during the year ended June 30, 2010 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. *Other Information*

None.

PART III

Item 10. *Directors, Executive Officers and Corporate Governance*

Audit Committee Financial Expert

We have a separately-designated standing audit committee established in accordance with section 3(a)(58)(A) of the Securities Exchange Act of 1934. The members of our Committee are Messrs. Ford (Chairman) and Hall and Ms. Brenner. All three members of the committee are independent as defined in Section 121 (A) of the NYSE Amex stock exchange's listing standards. Our Board of Directors has determined that we have at least one "audit committee financial expert" as defined under Item 401(h) of Regulation S-K serving on our audit committee. Mr. Ford is an "audit committee financial expert" and is independent as defined under the applicable SEC and NYSE Amex stock exchange Rules.

Code of Ethics

We have adopted a Code of Ethics (SunLink Health Systems, Inc. Code of Conduct) within the meaning of Item 406(b) of Regulation S-K. The Code of Ethics applies to all employees including our principal executive officer, principal financial officer and principal accounting officer. The Code of Ethics is publicly available on our website at www.sunlinkhealth.com or upon request by writing to us. If we make substantial amendments to our Code of Ethics or grant any waiver for the three previously named individuals, including any implicit waivers, we will disclose the nature of such amendment or waiver on our website or in a report on Form 8-K within five days of such amendment or waiver.

Other Information

Certain information required by this Item 10 will be set forth in the Company's Proxy Statement for its Annual Meeting of Shareholders scheduled to be held on November 8, 2010, except for certain information concerning the executive officers of the Company which is set forth in Part I of this Report.

Item 11. *Executive Compensation*

The information required by this Item 11 will be set forth in the Company's Proxy Statement for its Annual Meeting of Shareholders scheduled to be held on November 8, 2010, and is incorporated herein by this reference.

Item 12. *Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters*

The information required by this Item 12 will be set forth in the Company's Proxy Statement for its Annual Meeting of Shareholders scheduled to be held on November 8, 2010, and is incorporated herein by this reference.

Item 13. *Certain Relationships and Related Transactions and Director Independence*

The information required by this Item 13 will be set forth in the Company's Proxy Statement for its Annual Meeting of Shareholders scheduled to be held on November 8, 2010, and is incorporated herein by this reference.

Item 14. *Principal Accounting Fees and Services*

The information required by this Item 14 will be set forth in the Company's Proxy Statement for its Annual Meeting of Shareholders scheduled to be held on November 8, 2010, and is incorporated herein by this reference.

PART IV

Item 15. ***Exhibits, Financial Statement Schedules and Reports on Form 8-K***

(a) (1) Financial Statements

The following consolidated financial statements of the Company and its subsidiaries are set forth in Item 8 of this Annual Report on Form 10-K.

Report of Independent Registered Public Accounting Firm.

Consolidated Balance Sheets—June 30, 2010 and 2009.

Consolidated Statements of Earnings—For the Years Ended June 30, 2010, 2009 and 2008.

Consolidated Statements of Shareholders' Equity—For the Years Ended June 30, 2010, 2009 and 2008.

Consolidated Statements of Cash Flows—For the Years Ended June 30, 2010, 2009 and 2008.

Notes to Consolidated Financial Statements—For the Years Ended June 30, 2010, 2009 and 2008.

(a) (2) Financial Statement Schedules

Report of Independent Registered Public Accounting Firm . . . . At page 72 of this Report.
Schedule II Valuation and Qualifying Accounts . . . . At page 73 of this Report.

The information required to be submitted in Schedules I, III, IV and V for SunLink Health Systems, Inc. and its consolidated subsidiaries has either been shown in the financial statements or notes, or is not applicable or not required under Regulation S-X and, therefore, has been omitted.

(a) (3) See Item 15(b) below. Each management contract or compensatory plan or arrangement required to be filed as an Exhibit is identified below by an asterisk.

(b) Exhibits

The following exhibits are filed with this Form 10-K or incorporated herein by reference from the document set forth next to the exhibit in the list below. Exhibit numbers refer to Item 601 of Regulation S-K:

2.1 Asset Purchase Agreement, dated April 9, 2004, by and among Piedmont Mountainside Hospital, Inc., Piedmont Medical Center, Inc., Southern Health Corporation of Jasper, Inc., Southern Health Corporation, SunLink Healthcare Corp. and SunLink Health Systems, Inc. (incorporated by reference from Exhibit 2.1 of the Company's Report on Form 8-K filed April 14, 2004). (Commission File No. 04731963)

3.1 Amended Articles of Incorporation of SunLink Health Systems, Inc. (incorporated by reference from Exhibit 3.1 of the Company's Report on Form 10-Q for the quarter ended September 30, 2001). (Commission File No. 1789180)

3.2 Code of Regulations of SunLink Health Systems, Inc., as amended (incorporated by reference from Exhibit 3.2 of the Company's Report on Form 10-Q for the quarter ended September 30, 2001). (Commission File No. 1789180)

3.3 Certificate of Amendment to Amend Article Fourth of the Amended Articles of Incorporation of SunLink Health Systems, Inc. dated February 13, 2004 (incorporated by reference from Exhibit 3.1 of the Company's Report on Form 10-Q for the quarter ended December 31, 2003). (Commission File No. 04610446)

4.1	Shareholder Rights Agreement dated as of February 8, 2004, between SunLink Health Systems, Inc. and Wachovia Bank, N.A., as Rights Agent (incorporated by reference from Exhibit 4.1 of the Company's Report on Form 8-K filed February 10, 2004). (Commission File No. 04582922)
10.1*	2001 Long-Term Stock Option Plan (incorporated by reference from Exhibit 10.5 of the Company's Report on Form 10-Q for the quarter ended September 30, 2001). (Commission File No. 1789180)
10.2*	2001 Outside Directors' Stock Ownership and Stock Option Plan (incorporated by reference from Exhibit 10.6 of the Company's Report on Form 10-Q for the quarter ended September 30, 2001). (Commission File No. 1789180)
10.3*	Employment Agreement, dated May 13, 2008, between SunLink Homecare Services, LLC and George D. Shaunnessy (incorporated by reference from Exhibit 10.30 of SunLink's Form 8-K filed May 19, 2008). (Commission File No. 08844901)
10.4*	Employment Letter, dated April 30, 2001, by and between SunLink Health Systems, Inc. and Mark Stockslager (incorporated by reference from Exhibit 10.29 of SunLink's Form 10-Q for the quarter ended September 30, 2005). (Commission File No. 051197210)
10.5*	Employment Letter, dated February 1, 2001, by and between SunLink Healthcare Corp. and Jerome Orth (incorporated by reference from Exhibit 10.30 of SunLink's Form 10-Q for the quarter ended September 30, 2005). (Commission File No. 051197210)
10.6	Stock Purchase Agreement among SunLink Homecare Services, LLC, Carmichael's Cashway Pharmacy, Inc., Theodore S. Carmichael and Judy Chiasson Carmichael dated April 22, 2008 (the "Carmichael Agreement") (incorporated by reference from Exhibit 10.28 of the Company's Report on Form 8-K filed April 29, 2008). (Commission File No. 08787122)
10.7*	Amended and Restated Employment Agreement, dated July 1, 2005, between Harry R. Alvis and SunLink Health Systems, Inc. (incorporated by reference from Exhibit 99.1 of the Company's Report on Form 8-K filed December 8, 2005). (Commission File No. 051251137)
10.8*	Amended and Restated Employment Agreement, dated July 1, 2005, between Robert M. Thornton, Jr. and SunLink Health Systems, Inc. (incorporated by reference from Exhibit 99.1 of the Company's Report on Form 8-K filed December 23, 2005). (Commission File No. 051285094)
10.9	Credit Agreement between SunLink Health Systems, Inc., SunLink Healthcare LLC, Dexter Hospital LLC, Clanton Hospital LLC, Southern Health Corporation of Ellijay, Inc., Southern Health Corporation of Dahlonega, LLC, Southern Health Corporation of Houston, Inc., Southern Health Corporation of Jasper, Inc., HealthMont of Georgia, Inc., HealthMont, LLC, HealthMont of Missouri, LLC, SunLink Services, Inc., SunLink Homecare Services, LLC, KRUG Properties, Inc., Central Alabama Medical Associates, LLC, Dahlonega Clinic, LLC, Carmichael's Cashway Pharmacy, Inc., Carmichael's Nutritional Distributor, Inc., Breath of Life Home Health Equipment, Inc. and Chatham Credit Management III, LLC dated April 23, 2008 (incorporated by reference from Exhibit 10.29 of the Company's Report on Form 8-K filed April 29, 2008). (Commission File No. 08787122)
10.10	2005 Equity Incentive Plan (incorporated by reference from Exhibit 99.1 of the Company's Registration Statement on Form S-8 filed September 20, 2006). (Commission File No. 061100389)
10.11	Agreement of Understanding, dated June 28, 2007, between Christopher H. B. Mills and SunLink Health Systems, Inc. (incorporated by reference from Exhibit 99.2 of the Company's Report on Form 8-K filed July 16, 2007). (Commission File No. 07982325)
10.12*	Employment Letter, dated September 30, 2002, by and between SunLink Healthcare Corp. and Jack M. Spurr, Jr. (incorporated by reference from Exhibit 10.27 of the Company's Report on Form 10-K dated September 24, 2007). (Commission File No. 017732454)

10.13 Credit Agreement between SunLink Health Systems, Inc., SunLink Healthcare LLC, Dexter Hospital LLC, Clanton Hospital LLC, Southern Health Corporation of Ellijay, Inc., Southern Health Corporation of Dahlonega, LLC, Southern Health Corporation of Houston, Inc., Southern Health Corporation of Jasper, Inc., HealthMont of Georgia, Inc., HealthMont, LLC, HealthMont of Missouri, LLC, SunLink Services, Inc., SunLink Homecare Services, LLC, KRUG Properties, Inc., Central Alabama Medical Associates, LLC, Dahlonega Clinic, LLC, Carmichael's Cashway Pharmacy, Inc., Carmichael's Nutritional Distributor, Inc., Breath of Life Home Health Equipment, Inc. and Chatham Credit Management III, LLC and Union Bank of California, N.A. dated August 1, 2008 (incorporated by reference from the Company's Annual Report on Form 10-K for the year ended June 30, 2009). (Commission File No. 081091964)

10.14* Amendment, dated August 29, 2008, to the Amended and Restated Employment Agreement, dated July 1, 2005, between Harry R. Alvis and SunLink Health Systems, Inc. (incorporated by reference from the Company's Report on Form 10-K for the year ended June 30, 2009). (Commission File No. 017732454)

10.15 Executive Bonus Plan for 2009 (incorporated by reference from Exhibit 10.13 of the Company's Report on Form 8-K filed November 18, 2008). (Commission File No. 081199137)

10.16 Letter Agreement regarding the Carmichael Agreement dated March 3, 2009 (incorporated by reference from Exhibit 99.1 to Current Report on Form 8-K filed March 30, 2009). (Commission File No. 09696285)

10.17* Amended and Restated Employment Agreement, dated September 10, 2008 but effective as of July 1, 2005, between Harry R. Alvis and SunLink Health Systems, Inc.

10.18* Amendment, dated April 22, 2010, to the Amended and Restated Employment Agreement, dated September 10, 2008 but effective as of July 1, 2005, between Harry R. Alvis and SunLink Health Systems, Inc.

10.19 Limited Waiver Agreement Under Amended and Restated Credit Agreement between SunLink Health Systems, Inc., SunLink Healthcare LLC, Dexter Hospital LLC, Clanton Hospital LLC, Southern Health Corporation of Ellijay, Inc., Southern Health Corporation of Dahlonega, LLC, Southern Health Corporation of Houston, Inc., Southern Health Corporation of Jasper, Inc., HealthMont of Georgia, Inc., HealthMont, LLC, HealthMont of Missouri, LLC, SunLink Services, Inc., SunLink Homecare Services, LLC, KRUG Properties, Inc., Central Alabama Medical Associates, LLC, Dahlonega Clinic, LLC, Carmichael's Cashway Pharmacy, Inc., Carmichael's Nutritional Distributor, Inc., Breath of Life Home Health Equipment, Inc. and Chatham Credit Management III, LLC dated September 27, 2010.

21.1 List of Subsidiaries.

23.1 Consent of Cherry, Bekaert & Holland, L.L.P.

31.1 Chief Executive Officer's Certification Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934.

31.2 Chief Financial Officer's Certification Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934.

32.1 Chief Executive Officer's Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2 Chief Financial Officer's Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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* Management contract or compensatory plan or arrangement.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, SunLink Health Systems, Inc. has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized, on this 28th day of September, 2010.

SUNLINK HEALTH SYSTEMS, INC.

By: /s/ ROBERT M. THORNTON, JR.
Robert M. Thornton, Jr.
Chairman and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of SunLink Health Systems, Inc. and in the capacities and on the dates indicated:

Name	Title	Date
/s/ ROBERT M. THORNTON, JR. **Robert M. Thornton, Jr.**	Director, Chairman, President and Chief Executive Officer (principal executive officer)	October 12, 2010
/s/ MARK J. STOCKSLAGER **Mark J. Stockslager**	Chief Financial Officer and Principal Accounting Officer (principal accounting officer)	October 12, 2010
/s/ STEVEN J. BAILEYS, D.D.S. **Steven J. Baileys, D.D.S.**	Director	October 12, 2010
/s/ KAREN B. BRENNER **Karen B. Brenner**	Director	October 12, 2010
/s/ GENE E. BURLESON **Gene E. Burleson**	Director	October 12, 2010
/s/ C. MICHAEL FORD **C. Michael Ford**	Director	October 12, 2010
/s/ MICHAEL HALL **Michael Hall**	Director	October 12, 2010
/s/ CHRISTOPHER H. B. MILLS **Christopher H. B. Mills**	Director	October 12, 2010
/s/ HOWARD E. TURNER **Howard E. Turner**	Director	October 12, 2010

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders of
SunLink Health Systems, Inc.

We have audited the consolidated financial statements of SunLink Health Systems, Inc. and subsidiaries (the "Company") as of June 30, 2010 and 2009 and for each of the years in the three-year period ended June 30, 2010 and have issued our report thereon dated October 11, 2010; such consolidated financial statements and report are included elsewhere in this Form 10-K. Our audits also included the consolidated financial statement schedules of the Company, listed in Item 15 for each of the years in the three-year period ended June 30, 2010. These consolidated financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion based on our audits. In our opinion, such consolidated financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly in all material respects the information set forth therein.

/s/ Cherry, Bekaert & Holland, L.L.P.

Atlanta, Georgia
October 11, 2010

SUNLINK HEALTH SYSTEMS, INC. AND SUBSIDIARIES

SCHEDULE II—VALUATION AND QUALIFYING ACCOUNTS
(amounts in thousands)

Column A	Column B	Column C		Column D	Column E
Allowance for Doubtful Accounts	**Balance at Beginning of Year**	**Charged to Cost and Expenses**	**Currency Translation/ Acquisition/ (Disposition)**	**Deductions from Reserves**	**Balance at End of Year**
Year Ended June 30, 2010	$14,961	$26,193	$ —	$24,646	$16,508
Year Ended June 30, 2009	$14,138	$23,334	$ —	$22,511	$14,961
Year Ended June 30, 2008	$10,197	$22,001	$1,986	$20,046	$14,138
Deferred Income Tax Asset Valuation Allowance	**Balance at Beginning of Year**	**Charged to Cost and Expenses**	**Currency Translation/ Acquisition/ (Disposition)**	**Deductions from Reserves**	**Balance at End of Year**
Year Ended June 30, 2010	$ 2,724	$ (1,628)	$ —	$ 254	$ 1,350
Year Ended June 30, 2009	$ 2,810	$ (1,428)	$ —	$ 1,342	$ 2,724
Year Ended June 30, 2008	$ 2,898	$ (848)	$ —	$ 760	$ 2,810

INDEX TO EXHIBITS

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3.1 Amended Articles of Incorporation of SunLink Health Systems, Inc. (incorporated by reference from Exhibit 3.1 of the Company's Report on Form 10-Q for the quarter ended September 30, 2001). (Commission File No. 1789180)

3.2 Code of Regulations of SunLink Health Systems, Inc., as amended (incorporated by reference from Exhibit 3.2 of the Company's Report on Form 10-Q for the quarter ended September 30, 2001). (Commission File No. 1789180)

3.3 Certificate of Amendment to Amend Article Fourth of the Amended Articles of Incorporation of SunLink Health Systems, Inc. dated February 13, 2004 (incorporated by reference from Exhibit 3.1 of the Company's Report on Form 10-Q for the quarter ended December 31, 2003). (Commission File No. 04610446)

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10.2* 2001 Outside Directors' Stock Ownership and Stock Option Plan (incorporated by reference from Exhibit 10.6 of the Company's Report on Form 10-Q for the quarter ended September 30, 2001). (Commission File No. 1789180)

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10.10 2005 Equity Incentive Plan (incorporated by reference from Exhibit 99.1 of the Company's Registration Statement on Form S-8 filed September 20, 2006). (Commission File No. 061100389)

10.11 Agreement of Understanding, dated June 28, 2007, between Christopher H. B. Mills and SunLink Health Systems, Inc. (incorporated by reference from Exhibit 99.2 of the Company's Report on Form 8-K filed July 16, 2007). (Commission File No. 07982325)

10.12* Employment Letter, dated September 30, 2002, by and between SunLink Healthcare Corp. and Jack M. Spurr, Jr. (incorporated by reference from Exhibit 10.27 of the Company's Report on Form 10-K dated September 24, 2007). (Commission File No. 017732454)

10.13 Credit Agreement between SunLink Health Systems, Inc., SunLink Healthcare LLC, Dexter Hospital LLC, Clanton Hospital LLC, Southern Health Corporation of Ellijay, Inc., Southern Health Corporation of Dahlonega, LLC, Southern Health Corporation of Houston, Inc., Southern Health Corporation of Jasper, Inc., HealthMont of Georgia, Inc., HealthMont, LLC, HealthMont of Missouri, LLC, SunLink Services, Inc., SunLink Homecare Services, LLC, KRUG Properties, Inc., Central Alabama Medical Associates, LLC, Dahlonega Clinic, LLC, Carmichael's Cashway Pharmacy, Inc., Carmichael's Nutritional Distributor, Inc., Breath of Life Home Health Equipment, Inc. and Chatham Credit Management III, LLC and Union Bank of California, N.A. dated August 1, 2008 (incorporated by reference from the Company's Annual Report on Form 10-K for the year ended June 30, 2009). (Commission File No. 081091964)

10.14* Amendment, dated August 29, 2008, to the Amended and Restated Employment Agreement, dated July 1, 2005, between Harry R. Alvis and SunLink Health Systems, Inc. (incorporated by reference from the Company's Report on Form 10-K for the year ended June 30, 2009). (Commission File No. 017732454)

10.15 Executive Bonus Plan for 2009 (incorporated by reference from Exhibit 10.13 of the Company's Report on Form 8-K filed November 18, 2008). (Commission File No. 081199137)

10.16 Letter Agreement regarding the Carmichael Agreement dated March 3, 2009 (incorporated by reference from Exhibit 99.1 to Current Report on Form 8-K filed March 30, 2009). (Commission File No. 09696285)

10.17* Amended and Restated Employment Agreement, dated September 10, 2008 but effective as of July 1, 2005, between Harry R. Alvis and SunLink Health Systems, Inc.

10.18* Amendment, dated April 22, 2010, to the Amended and Restated Employment Agreement, dated September 10, 2008 but effective as of July 1, 2005, between Harry R. Alvis and SunLink Health Systems, Inc.

10.19 Limited Waiver Agreement Under Amended and Restated Credit Agreement between SunLink Health Systems, Inc., SunLink Healthcare LLC, Dexter Hospital LLC, Clanton Hospital LLC, Southern Health Corporation of Ellijay, Inc., Southern Health Corporation of Dahlonega, LLC, Southern Health Corporation of Houston, Inc., Southern Health Corporation of Jasper, Inc., HealthMont of Georgia, Inc., HealthMont, LLC, HealthMont of Missouri, LLC, SunLink Services, Inc., SunLink Homecare Services, LLC, KRUG Properties, Inc., Central Alabama Medical Associates, LLC, Dahlonega Clinic, LLC, Carmichael's Cashway Pharmacy, Inc., Carmichael's Nutritional Distributor, Inc., Breath of Life Home Health Equipment, Inc. and Chatham Credit Management III, LLC dated September 27, 2010.

21.1 List of Subsidiaries.

23.1 Consent of Cherry, Bekaert & Holland, L.L.P.

31.1 Chief Executive Officer's Certification Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934.

31.2 Chief Financial Officer's Certification Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934.

32.1 Chief Executive Officer's Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2 Chief Financial Officer's Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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* Management contract or compensatory plan or arrangement.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders of
SunLink Health Systems, Inc.

We have audited the accompanying consolidated balance sheets of SunLink Health Systems, Inc. and subsidiaries (the "Company") as of June 30, 2010 and 2009 and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the years in the three-year period ended June 30, 2010. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company and subsidiaries as of June 30, 2010 and 2009, and the consolidated results of their operations and their cash flows for each of the years in the three-year period ended June 30, 2010, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 8 to the consolidated financial statements, SunLink was in violation of certain financial covenants of its primary credit facility. The Company has received a waiver from its lender of these financial covenants for June 30, 2010, and revised certain financial covenants and other significant terms of the credit facility.

/s/Cherry, Bekaert & Holland, L.L.P.

Atlanta, Georgia
October 11, 2010

SUNLINK HEALTH SYSTEMS, INC.

CONSOLIDATED BALANCE SHEETS
JUNE 30, 2010 AND 2009

	2010	2009
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 1,704	$ 2,364
Receivables—net	17,233	21,116
Inventory	4,823	4,745
Income tax receivable	345	87
Deferred income tax asset	6,030	5,446
Prepaid expense and other	4,499	3,265
Total current assets	34,634	37,023
PROPERTY, PLANT AND EQUIPMENT—At cost		
Land	2,229	2,229
Buildings and improvements	31,939	32,987
Equipment and fixtures	38,306	36,341
	72,474	71,557
Less accumulated depreciation	31,118	25,435
Property, plant and equipment—net	41,356	46,122
NONCURRENT ASSETS:		
Intangible assets—net	11,776	12,587
Goodwill	9,024	9,453
Other noncurrent assets	1,700	2,198
Total noncurrent assets	22,500	24,238
TOTAL ASSETS	$98,490	$107,383
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 8,445	$ 9,131
Revolving advances	—	3,400
Current maturities of long-term debt	1,797	1,808
Current maturities of subordinated long-term debt	300	300
Accrued payroll and related taxes	5,129	4,749
Income taxes	607	1,664
Current liabilities of Mountainside Medical Center	—	594
Accrued employee medical claims	512	699
Other accrued expenses	2,316	3,055
Total current liabilities	19,106	25,400
LONG-TERM LIABILITIES:		
Long-term debt	29,090	30,887
Subordinated long-term debt	2,250	2,550
Noncurrent deferred income tax liabilities	1,625	1,776
Noncurrent liability for professional liability risks	2,956	3,072
Other noncurrent liabilities	771	1,306
Total long-term liabilities	36,692	39,591
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDERS' EQUITY:		
Preferred Shares, authorized and unissued, 2,000 shares	—	—
Common Shares, no par value; authorized, 12,000 shares; issued and outstanding, 8,079 shares at June 30, 2010 and 8,050 shares at June 30, 2009	4,039	4,025
Additional paid-in capital	11,701	11,626
Retained earnings	26,565	26,463
Accumulated other comprehensive loss	(301)	(337)
Total Parent Company Shareholders' Equity	42,004	41,777
Noncontrolling interest	688	615
Total Shareholders' Equity	42,692	42,392
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$98,490	$107,383

See notes to consolidated financial statements.

SUNLINK HEALTH SYSTEMS, INC.

CONSOLIDATED STATEMENTS OF EARNINGS
FOR THE YEARS ENDED JUNE 30, 2010, 2009 AND 2008
(All amounts in thousands, except per share amounts)

	Years Ended		
	June 30, 2010	June 30, 2009	June 30, 2008
Net revenues	$197,784	$198,055	$158,431
Costs and expenses:			
Cost of goods sold	29,539	31,766	4,571
Salaries, wages and benefits	79,782	78,813	73,852
Provision for bad debts	26,193	23,334	22,013
Supplies	15,459	14,744	14,615
Purchased services	12,271	11,548	9,961
Other operating expenses	23,841	21,616	19,872
Rents and leases expense	3,316	3,226	2,630
Impairment of construction in progress	1,202	433	—
Depreciation and amortization	6,803	6,896	5,512
Gain on sale of Home Health Businesses	(2,342)	—	—
	196,064	192,376	153,026
Operating profit	1,720	5,679	5,405
Other income (expense):			
Interest expense	(3,471)	(3,765)	(2,114)
Interest income	14	50	72
Gain on sale of assets	—	180	—
Loss on early repayment of debt	—	—	(267)
Earnings (loss) from continuing operations before income taxes	(1,737)	2,144	3,096
Income tax expense (benefit)	(807)	1,077	1,087
Earnings (loss) from continuing operations	(930)	1,067	2,009
Earnings (loss) from discontinued operations, net of income taxes	1,032	(155)	(393)
Net earnings	$ 102	$ 912	$ 1,616
Earnings (loss) per share:			
Continuing operations:			
Basic	$ (0.12)	$ 0.13	$ 0.26
Diluted	$ (0.12)	$ 0.13	$ 0.26
Discontinued operations:			
Basic	$ 0.13	$ (0.02)	$ (0.05)
Diluted	$ 0.13	$ (0.02)	$ (0.05)
Net earnings:			
Basic	$ 0.01	$ 0.11	$ 0.21
Diluted	$ 0.01	$ 0.11	$ 0.21
Weighted-average common shares outstanding:			
Basic	8,052	7,975	7,605
Diluted	8,052	8,019	7,855

See notes to consolidated financial statements.

SUNLINK HEALTH SYSTEMS, INC.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY FOR THE YEARS ENDED JUNE 30, 2010, 2009 AND 2008 (All amounts in thousands)

	Common Shares		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interest	Total Shareholders' Equity
	Shares	Amount					
JULY 1, 2007	7,510	$3,755	$ 8,904	$23,941	$(576)		$36,024
Net earnings	—	—	—	1,616	—		1,616
Cumulative effect of FIN 48 implementation				(6)	—		(6)
Foreign currency translation adjustment	—	—	—	—	12		12
Minimum pension liability adjustment, net of tax of $12					(19)		(19)
Total comprehensive income							1,603
Share-based compensation	—	—	477	—	—		477
Common shares issued	422	211	1,929	—	—		2,140
Sale of noncontrolling interest	—	—	—	—	—	615	615
JUNE 30, 2008	7,932	3,966	11,310	25,551	(583)	615	40,859
Net earnings	—	—	—	912	—		912
Foreign currency translation adjustment	—	—	—	—	281		281
Minimum pension liability adjustment, net of tax of $21					(35)		(35)
Total comprehensive income							1,158
Share-based compensation	—	—	190	—	—		190
Common shares issued	118	59	126	—	—	—	185
JUNE 30, 2009	8,050	4,025	11,626	26,463	(337)	615	42,392
Net earnings	—	—	—	102	—		102
Foreign currency translation adjustment	—	—	—	—	46		46
Minimum pension liability adjustment, net of tax of $6					(10)		(10)
Total comprehensive income							138
Share-based compensation	—	—	40	—	—		40
Common shares issued	29	14	35	—	—		49
Sale of noncontrolling interest	—	—	—	—	—	73	73
JUNE 30, 2010	8,079	$4,039	$11,701	$26,565	$(301)	$688	$42,692

See notes to consolidated financial statements.

SUNLINK HEALTH SYSTEMS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2010, 2009 AND 2008
(All amounts in thousands)

	Years Ended		
	June 30, 2010	**June 30, 2009**	**June 30, 2008**
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net earnings	$ 102	$ 912	$ 1,616
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation and amortization	6,803	6,896	5,512
Stock-based compensation	41	190	477
Impairment of construction in process	1,202	433	—
Gain on sale of Home Health businesses	(2,342)	—	—
Gain on sale of asset	—	(180)	—
Non-cash loss on early repayment of debt	—	—	267
Change in assets and liabilities:			
Receivables	3,883	(1,064)	(464)
Inventory	(78)	(34)	(17)
Prepaid expenses and other assets	(400)	51	307
Accounts payable and accrued expenses	(1,229)	(94)	(2,899)
Income taxes	(1,058)	1,110	(472)
Deferred income taxes	(735)	(1,353)	(572)
Third-party payor settlements	(617)	(1,784)	(2,004)
Net activities of discontinued operations	(1,644)	(653)	(71)
Net cash provided by operating activities	3,928	4,430	1,680
CASH FLOWS FROM INVESTING ACTIVITIES:			
Acquisition, less cash acquired	—	—	(18,811)
Expenditures for property, plant and equipment	(2,502)	(1,571)	(8,337)
Proceeds from sale of Home Health businesses	3,300	—	—
Proceeds from sale of property, plant and equipment	—	522	—
Proceeds from sale of noncontrolling interest	73	—	615
Net cash provided by (used in) investing activities	871	(1,049)	(26,533)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from issuance of common shares	49	185	139
New-long term debt	—	—	35,000
Payment of long-term debt	(2,108)	(2,418)	(8,584)
Revolving advances, net	(3,400)	(500)	(800)
Net cash provided by (used in) financing activities	(5,459)	(2,733)	25,755
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(660)	648	902
CASH AND CASH EQUIVALENTS:			
Beginning of year	2,364	1,716	814
End of year	$ 1,704	$ 2,364	$ 1,716
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:			
Cash paid for:			
Income taxes	$ 1,548	$ 1,358	$ 904
Interest, net of amounts capitalized	$ 3,103	$ 3,395	$ 1,978
Non-cash investing and financing activities:			
Assets acquired under capital lease obligations	$ —	$ 133	$ —
Subordinated debt issued for acquisition	$ —	$ —	$ 3,000
Common shares issued for acquisition	—	—	2,000

See notes to consolidated financial statements.

SUNLINK HEALTH SYSTEMS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED JUNE 30, 2010, 2009 and 2008
(All amounts in thousands, except share and per share amounts)

1. BUSINESS OPERATIONS AND CORPORATE STRATEGY

Business Operations

SunLink Health Systems, Inc. ("SunLink", "we", "our", "ours", "us" or the "Company") 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 consists of
  - Our seven community hospitals which have a total of 402 licensed beds;
  - Our three nursing homes, each of which is located adjacent to a corresponding SunLink community hospital which have a total of 261 licensed beds; and
  - Our one home health agency which operates for 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, all of which are conducted in rural markets.

SunLink has conducted its healthcare facilities business since 2001 and its specialty pharmacy operations since April 2008. Our Specialty Pharmacy Segment currently is operated through Carmichael's Cashway Pharmacy, Inc. ("Carmichael"), a subsidiary of our SunLink ScriptsRx, LLC subsidiary, and is composed of a specialty pharmacy business acquired in April 2008 with four service lines.

Strategy

SunLink's business strategy is to focus its efforts on internal growth of its existing healthcare facilities and its pharmacy business, supplemented by growth from selected rural and exurban healthcare acquisitions, including but not limited to hospitals, nursing homes, home care businesses, and pharmacy businesses. However, as was the case in 2004 with our Mountainside Medical Center hospital and in September 2009 with the sale of three home health agencies, we do consider disposition of one or more of our facilities or operations based on a variety of factors including asset values, return on investments, competition from existing and potential facilities, capital improvement needs and other corporate objectives. In addition, as we have previously announced, we have engaged Fennebresque & Co. of Charlotte, NC as financial advisor to aid in our evaluation of strategic alternatives as well as in connection with a potential refinancing of our outstanding indebtedness. Currently no agreement has been reached or approved by the Board of SunLink to effect any strategic transaction or to refinance any of our outstanding indebtedness.

Operations

Our operational strategy is focused on efforts to increase internal growth. Our primary operational strategy for our community hospitals is to improve the profitability of such hospitals by reducing out-migration of patients, recruiting physicians, expanding services and implementing and maintaining effective cost controls. Our operational strategy for our nursing homes and home health agency is similar to that for our community hospitals and is focused on expanding services and implementing and maintaining effective cost controls.

Finally, our operational strategy for our Specialty Pharmacy Segment is focused on continuing the integration of the Carmichael operations acquired in April 2008, increasing market share, increasing collection efforts, expanding services and implementing and maintaining effective cost controls.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation—The consolidated financial statements include the accounts of SunLink and its domestic and foreign subsidiaries, all of which are 100% owned except for one hospital that is 83% owned and one pharmacy segment subsidiary that is 51% owned. All significant intercompany transactions and balances have been eliminated.

Management Estimates—The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Some of the more significant estimates made by management involve reserves for adjustments to net patient service revenues, evaluation of the recoverability of assets, including accounts receivable, and the assessment of litigation and contingencies, including income taxes and related tax asset valuation allowances, all as discussed in more detail in the remainder of these notes to the consolidated financial statements. Actual results could differ materially from these estimates.

Net Patient Service Revenue—SunLink has agreements with third-party payors that provide for payments at amounts different from established charges. Payment arrangements vary and include prospectively determined rates per discharge, reimbursed costs, discounted charges and per diem payments. Patient service revenues are reported as services are rendered at the estimated net realizable amounts from patients, third-party payors, and others. Estimated net realizable amounts are estimated based upon contracts with third-party payors, published reimbursement rates, and historical reimbursement percentages pertaining to each payor type. Estimated reductions in revenues to reflect agreements with third-party payors and estimated retroactive adjustments under such reimbursement agreements are accrued during the period the related services are rendered and are adjusted in future periods as interim and final settlements are determined. Significant changes in reimbursement levels for services under government and private programs could significantly impact the estimates used to accrue such revenue deductions. At June 30, 2010, there were no material claims or disputes with third-party payors.

Charity Care—SunLink provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because SunLink does not pursue collection of amounts determined to qualify as charity, they are not reported as revenue. SunLink provided $5,649, $7,168, and $5,699, of charity care in the fiscal years ended June 30, 2010, 2009 and 2008, respectively.

Concentrations of Credit Risk—SunLink grants unsecured credit to its patients, most of who reside in the service area of SunLink's facilities and are insured under third-party agreements. Although SunLink's three Georgia facilities generated approximately 51%, 44% and 50% of gross revenues for the years ended June 30, 2010, 2009 and 2008, respectively, because of the geographic diversity of SunLink's facilities and nongovernmental third-party payors, Medicare and Medicaid accounts represent SunLink's only significant concentrations of credit risk. For SunLink's Healthcare Facilities Segment, Medicare net revenues were approximately 39%, 41%, and 42% of net revenues for the years ended June 30, 2010, 2009 and 2008, respectively. For SunLink's Healthcare Facilities Segment, Medicaid was approximately 13%, 14%, and 14% of net revenues for the years ended June 30, 2010, 2009 and 2008, respectively. For SunLink's Healthcare Facilities Segment, Medicare receivables were approximately 38% of receivable—net at June 30, 2010 while Medicaid receivables were approximately 19% of receivable—net at the same date.

Cash and Cash Equivalents—Cash and cash equivalents consist of highly liquid financial instruments, which have original maturities of three months or less. Cash is deposited with commercial banks and may have deposits totaling amounts in excess of the federally insured limits from time to time.

Inventory—Inventory consists of medical and pharmacy supplies. Medical supplies are valued at the lower of cost or market, using the first-in, first-out method. Pharmacy supplies are stated at the lower of cost (standard cost method), or market. Use of this method does not result in a material difference from the methods required by generally accepted accounting principles in the United States of America.

Allowance for Doubtful Accounts—Substantially all of SunLink's receivables result from providing healthcare services to hospital facility patients and from providing pharmacy services and products to customers. Accounts receivable are reduced by an allowance for doubtful accounts estimated to become uncollectible in the future. For its Healthcare Facilities, the Company calculates an allowance percentage based generally upon its historical collection experience for each type of payor. The allowance amount is computed by applying allowance percentages to receivable amounts included in specific payor categories. Significant changes in reimbursement levels for services under government and private programs could significantly impact the estimates used to determine the allowance for doubtful accounts. Accounts receivable are written off after all collection efforts have failed, normally within 120 days after the date of discharge of the patient or service to the patient or customer. For its Pharmacy Operations, the Company calculates an allowance percentage based on past credit history with customers and their current financial condition. Accounts receivable are written off against the allowance for doubtful accounts when they are deemed uncollectible.

Property, Plant, and Equipment—Property, plant, and equipment, including capital leases, are recorded at cost. Depreciation is recognized over the estimated useful lives of the assets, which range from 5 to 45 years, on a straight-line basis. Generally, furniture and fixtures are depreciated over 5 to 10 years, machinery and equipment over 10 years, and buildings over 25 to 45 years. Leasehold improvements and leased machinery and equipment are depreciated over the lease term or estimated useful life, whichever is shorter, of the asset and range from 5 to 15 years. Expenditures for major renewals and replacements are capitalized. Expenditures for maintenance and repairs are charged to operating expense as incurred. When property items are retired or otherwise disposed of, amounts applicable to such items are removed from the related asset and accumulated depreciation accounts and any resulting gain or loss is credited or charged to income. Depreciation expense totaled $5,950, $5,977, and $5,202, for the years ended June 30, 2010, 2009 and 2008, respectively.

Risk Management—SunLink is exposed to various risks of loss from medical malpractice and other claims and casualties; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters (including earthquakes and hurricanes); and employee health, dental and accident benefits. Commercial insurance coverage is purchased for a portion of claims arising from such matters.

When, in management's judgment, claims are sufficiently identified, a liability is accrued for estimated costs and losses under such claims, net of estimated insurance recoveries except where applicable laws, rules or regulations require us to report the gross estimate of potential or estimated losses.

By virtue of the acquisition of its initial six hospitals, SunLink assumed responsibility for professional liability claims reported after the February 1, 2001 acquisition date and the previous owner retained responsibility for all known and filed claims prior to the acquisition date. SunLink purchased claims-made commercial insurance for acts prior to and after the acquisition date. The recorded liability for professional liability risks includes an estimate of the liability for claims incurred prior to February 1, 2001, but reported after February 1, 2001, and for claims incurred after February 1, 2001. These amounts are based on actuarially determined amounts.

In connection with the acquisition of HealthMont LLC (“HealthMont”) and its two hospitals, SunLink assumed responsibility for all professional liability claims. HealthMont had purchased claims-made commercial insurance for claims made prior to the acquisition and SunLink purchased claims-made commercial insurance for claims made after the acquisition. The recorded liability for professional liability risks includes an estimate of liability for claims assumed at the acquisition and for claims incurred after the acquisition. These amounts are based on actuarially determined amounts.

The Company self-insures for workers’ compensation risk. The estimated liability for workers’ compensation risk includes estimates of the ultimate costs for both reported claims and claims incurred but not reported. Since October 1, 2006, the Company is self-insured for employee health risks. The estimated liability for employee health risk includes estimates of the ultimate costs for both reported claims and claims incurred but not reported.

The Company accrues an estimate of losses resulting from workers’ compensation and professional liability claims to the extent they are not covered by insurance. These accruals are estimated quarterly based upon management’s review of claims reported and historical loss data.

The Company records a liability pertaining to pending litigation if it is probable a loss has been incurred and accrues the most likely amount of loss based on the information available. If no amount within the range of losses estimated from the information available is more likely than any other amount in the range of loss, the minimum amount in the range of loss is accrued. Because of uncertainties surrounding the nature of litigation and the ultimate liability to SunLink, if any, we revise estimated losses as additional facts become known.

Long-lived Assets—SunLink periodically assesses the recoverability of assets based on its expectations of future profitability and the undiscounted cash flows of the related operations and, when circumstances dictate, adjusts the carrying value of the asset to estimated fair value. These factors, along with management’s plans with respect to the operations, are considered in assessing the recoverability of long-lived assets.

Goodwill—Goodwill represents the cost of acquired businesses in excess of fair value of identifiable tangible and intangible net assets purchased. Goodwill has an indefinite life and is not subject to periodic amortization. However, goodwill is tested at least annually for impairment, using a fair value methodology, in lieu of amortization. Definite-life intangible assets are amortized on a straight-line basis over their estimated useful lives, generally for periods ranging from 2 to 30 years. SunLink evaluates the reasonableness of the useful lives of intangible assets and they are tested for impairment as conditions warrant.

Income Taxes—SunLink accounts for income taxes using an asset and liability approach and the recognition of deferred tax assets and liabilities for expected future tax consequences. SunLink considers all expected future events other than proposed enactments of changes in the income tax law or rates. When management determines that it is more likely than not that a portion of or none of the net deferred tax asset will be realized through future taxable earnings or implementation of tax planning strategies, management provides a valuation allowance for the portion not expected to be realized.

Share-Based Compensation—The Company issues common share options to key employees and directors under various shareholder-approved plans. Share-based compensation expense of $40, $190 and $477 for the fiscal years ended June 30, 2010, 2009 and 2008, respectively, was recorded in salaries, wages and benefits expense for share options issued to employees and directors of the Company. The fair value of the share options was estimated using the Black-Scholes option pricing model. The historical volatility is used to calculate the estimated volatility in this model.

Fair Value of Financial Instruments—The recorded values of cash, receivables, and payables approximate their fair values because of the relatively short maturity of these instruments. Similarly, the fair value of SunLink's long-term debt is estimated to approximate its recorded values due to its relatively short maturity period—six years.

Earnings (Loss) per Share—Earnings (loss) per common share is based on the weighted-average number of common shares and dilutive common share equivalents outstanding for each period presented, including vested and unvested shares issued under SunLink's 1995 Incentive Stock Option Plan, 2001 Long-Term Stock Option Plan, 2001 Outside Directors' Stock Ownership and Stock Option Plan and the 2005 Equity Incentive Plan. Common share equivalents represent the dilutive effect of the assumed exercise of the outstanding stock options.

Recent Accounting Standards—In June 2009, the Financial Accounting Standards Board ("FASB") issued SFAS No. 168, *The FASB Accounting Standards Codification™ and the Hierarchy of Generally Accepted Accounting Principles* (ASC 105, *Generally Accepted Accounting Principles*) "ASC 105". ASC 105 replaces SFAS No. 162, *The Hierarchy of Generally Accepted Accounting Principles*, and establishes the *FASB Accounting Standards Codification™* ("Codification") as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with GAAP. On the effective date of this Statement, the Codification will supersede all then-existing non-SEC accounting and reporting standards. ASC 105 is effective for financial statements issued for interim and annual periods ending after September 15, 2009. The Codification is effective for the accompanying interim financial statements and the principal impact is limited to disclosures as all future references to authoritative literature will be referenced in accordance with the Codification.

In September 2006, the FASB issued new accounting guidance related to fair value measurements and related disclosures. This new guidance defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. We adopted this new guidance on July 1, 2008, as required for our financial assets and financial liabilities. However, the FASB deferred the effective date of this new guidance for one year as it related to fair value measurement requirements for nonfinancial assets and liabilities that are recognized or disclosed at fair value on a recurring basis. We adopted these remaining provisions on July 1, 2009. The adoption of this accounting guidance did not have a material impact on our consolidated financial statements.

Fair Value of Financial Instruments—The recorded values of cash, receivables, and payables approximate their fair values because of the relatively short maturity of these instruments. Similarly, the fair value of SunLink's long-term debt is estimated to approximate its recorded values due to its relatively short maturity period—six years.

In December 2007, the FASB issued new accounting guidance related to the accounting for noncontrolling interests in consolidated financial statements. This guidance establishes accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. This guidance requires that noncontrolling interests in subsidiaries be reported in the equity section of the controlling company's balance sheet. It also changes the manner in which the net income of the subsidiary is reported and disclosed in the controlling company's income statement. This guidance is effective for fiscal years beginning after December 15, 2008. We adopted this guidance on July 1, 2009 and reclassified minority interest to the equity section of the balance sheet. (See Note 12—Noncontrolling Interest)

Management, in accordance with guidance regarding subsequent events, has evaluated subsequent events for recognition or disclosure through the date these financial statements were issued.

Reclassifications—Certain amounts in prior periods' consolidated financial statements have been reclassified to conform to the current period's presentation.

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 shares). Carmichael had annual revenues of approximately $42,200 for its year ended December 31, 2007 and has been in business for over 35 years. Carmichael provides services to patients in rural communities in southwest Louisiana and eastern Texas. The operating results of Carmichael are included in our Specialty Pharmacy Segment. A summary of the preliminary purchase price allocation for this acquisition is as follows:

	April 22, 2008
Current assets	$ 7,119
Property, plant and equipment	2,159
Goodwill	6,509
Intangible assets	12,859
Other non-current assets	3
Total assets acquired	28,649
Current liabilities	3,633
Net assets acquired	25,016
Less:	
Acquisition costs	1,016
Debt	3,000
Stock	2,000
Cash consideration	$19,000

The former owners of Carmichael's Cashway Pharmacy, Inc. ("Sellers") received 334,448 common shares of SunLink as partial consideration for the business. In the April 2008 acquisition agreement, SunLink was obligated to pay the difference between the market value at the acquisition date and the price per share the Sellers received for shares sold, less $1 per share, if the shares were sold within one year from the acquisition date. In March 2009, SunLink and the Sellers agreed to cancel SunLink's price guarantee obligation relating to the shares. Concurrently, SunLink and the Sellers agreed to a one-year extension of a consulting agreement with one of the Sellers, assumption by SunLink of $227 of disputed pre-acquisition expenses that SunLink determined were the obligation of the Sellers, and payment of certain post closing items.

Finite-lived identifiable assets are amortized on a straight-line basis. The following are the intangible assets acquired and their respective amortizable lives:

	Amount	Amortizable Life
Trade Name	$ 5,400	0 years
Customer Relationships	6,400	12 years
Medicare License	769	15 years
Noncompetition Agreement	290	2 years
	$12,859	

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.

Housewares Segment—Beldray Limited ("Beldray"), SunLink's 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 covered Beldray's obligations under a lease of a portion of Beldray's former manufacturing location. KRUG UK was placed into involuntary liquidation by a U.K. High Court in February 2005 and, in an insolvency proceeding, the liquidator in August 2007 made an application (the "Application") in the Birmingham County Court in Birmingham, England, in which the liquidator sought 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 because, among other things, KRUG UK was then effectively insolvent and the approval of such transfers by the then directors of KRUG UK resulted in a breach of their fiduciary duties. The liquidator sought to have the court order the former directors or, in the alternative, the Company, be required to account for, repay or restore such funds to the liquidator of KRUG UK. All claims of the liquidator in Application were settled on April 13, 2010 and are no longer outstanding with SunLink agreeing to pay approximately $1,400. SunLink's insurer under a Directors and Officers insurance policy contributed $480 with SunLink paying the difference of $920 in April 2010. The Company cancelled all preferred stock of its subsidiary held by KRUG UK. The pre-tax loss of $464 for the fiscal year ended June 30, 2010 with respect to the former housewares segment operations resulted from $760 reversal of the reserve for the claim paid to the liquidator in April 2010, $1,616 of legal defense expense offset by $374 of insurance reimbursement for legal expenses paid and $18 of other income related to the removal of the foreign currency translation adjustment. See the "Legal Proceedings" subsection in Note 14 "Commitments and Contingencies" which follows for additional disclosure with respect to the liquidator's claim and settlement.

Mountainside Medical Center—On June 1, 2004, SunLink sold its Mountainside Medical Center ("Mountainside") hospital in Jasper, Georgia, for approximately $40,000 pursuant to the terms of an asset sale agreement. In connection with this sale, a claim by the buyer of Mountainside and a counter claim by SunLink had been in litigation since July 2006. On October 26, 2006, SunLink obtained a judgment for damages of $1,056 plus accrued prejudgment interest from the Superior Court of Cobb County, Georgia. The damage amount of $1,056 is a net amount including $1,560 of disputed Medicaid receipts owed to SunLink (and previously disputed by the buyer) less $504 SunLink owed to the buyer under the asset sale agreement. This judgment was appealed by the buyer to the Georgia Court of Appeal which affirmed the judgment in November 2009. The judgment was further appealed to the Georgia Supreme Court which, on May 2, 2010, declined to hear the appeal. As a result of this decision, SunLink recorded a receivable at March 31, 2010 for $1,325 composed of the judgment amount plus pre-judgment and post-judgment interest through that date. Included in the pre-tax earnings of Mountainside in the fiscal year ended June 30, 2010 as a result of the judgment is $1,829, composed of total of the $1,560 Medicaid payment plus $266 of accrued judgment interest. Also included in pre-tax earnings of Mountainside for the fiscal year ended June 30, 2010 are legal expenses related to the litigation with the buyer's claim and SunLink's counterclaim. Under the terms of the asset sale agreement, SunLink has the right to be indemnified by the buyer for losses (including reasonable attorneys' fees and expenses of litigation) incurred in enforcing the covenants and agreements of the buyer. No amount of any possible recovery of legal fees has been accrued as of June 30, 2010. The retained assets and liabilities of Mountainside are shown in current assets and current liabilities on the consolidated balance sheet. See the "Legal Proceedings" subsection in Note 14 "Commitments and Contingencies" which follows for additional disclosure with respect to 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. Pension expense and related tax benefit or expense is reflected in the results of operations for this segment for the fiscal years ended June 30, 2010, 2009 and 2008.

Industrial Segment—In fiscal 1989, SunLink discontinued the operations of its industrial segment and subsequently disposed of substantially all related net assets. However, potential obligations remained relating to product liability claims for products sold prior to disposal. In the fiscal year ended June 30, 2009, the loss reserve of $161 for such claims was reversed by SunLink as it was determined no loss reserve was needed.

Discontinued Operations Reserves—Over the past 21 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 related 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. With the settlement of litigation related to the Housewares Segment and Mountainside, no reserve for discontinued operations is included in the June 30, 2010 balance sheet.

The following is a summary of the loss reserves for discontinued operations:

	Years Ended June 30,		
	2010	**2009**	**2008**
Beginning balance	$ 643	$1,326	$1,396
Usage	(643)	(443)	(181)
Exchange differences	—	(240)	111
	$ —	$ 643	$1,326

Results of discontinued operations were as follows:

Discontinued Operations—Summary Statement of Earnings Information

	Years Ended June 30,		
	2010	**2009**	**2008**
Earnings (Loss) from discontinued operations:			
Housewares Segment:			
Loss from operations	$ (464)	$(241)	$(306)
Income tax expense (benefit)	(64)	(106)	(96)
Loss from Housewares Segment after taxes	(400)	(135)	(210)
Mountainside Medical			
Earnings (Loss) from operations	1,731	(139)	(216)
Income tax expense (benefit)	238	(62)	(67)
Loss from Mountainside Medical Center after taxes	1,493	(77)	(149)
Life sciences and engineering segment:			
Loss from operations	(71)	(58)	(49)
Income tax expense (benefit)	(10)	(25)	(15)
Loss from life sciences and engineering segment after income taxes	(61)	(33)	(34)
Industrial segment:			
Earnings from operations	—	161	—
Income tax expense (benefit)	—	71	—
Earnings from industrial segment after income taxes	—	90	—
Earnings (Loss) from discontinued operations	$1,032	$(155)	$(393)

5. NET REVENUES AND RECEIVABLES

SunLink has agreements with third-party payors that provide for payments at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

Medicare—Inpatient acute care services rendered to Medicare program beneficiaries are paid at prospectively determined rates per Diagnosis Related Group. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Inpatient nonacute services, certain outpatient services, and defined capital and medical education costs related to Medicare beneficiaries are paid based on a cost reimbursement methodology. Cost reimbursable items are paid at a tentative rate, with final settlement determined after submission of annual cost reports and audits thereof by the Medicare fiscal intermediary.

Medicaid—Inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed either under contracted rates or reimbursed for cost reimbursable items at a tentative rate, with final settlement determined after submission of annual cost reports and audits thereof by the Medicaid fiscal intermediary.

SunLink also has entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

Summary information for receivables is as follows:

	June 30, 2010	June 30, 2009
Patient accounts receivable (net of contractual allowances)	$ 33,741	$ 36,077
Less allowance for doubtful accounts	(16,508)	(14,961)
Patient accounts receivable (net of allowances)	$ 17,233	$ 21,116

Net revenues included $1,163, $343, and $1,259, for the years ended June 30, 2010, 2009 and 2008, respectively, for the settlements and filings of prior year Medicare and Medicaid cost reports.

6. INVENTORY

Consisted of the following:

	June 30, 2010	June 30, 2009
Healthcare Facilities Segment Supplies Inventory	$2,687	$2,672
Specialty Pharmacy Segment Goods Held For Sale	2,136	2,073
	$4,823	$4,745

7. GOODWILL AND INTANGIBLE ASSETS

SunLink has goodwill related to its HealthMont and Carmichael acquisitions. We have intangible assets related to these acquisitions, as well. We also have intangible assets related to three Healthcare Facilities Segment clinic purchases.

Intangible assets consist of the following, net of amortization:

	June 30, 2010	June 30, 2009
Healthcare Facilities Segment		
Certificates of Need	$ 630	$ 630
Noncompetition Agreements	266	266
	896	896
Accumulated Amortization	(409)	(301)
	487	595
Specialty Pharmacy Segment		
Trade Name	5,400	5,400
Customer Relationships	6,400	6,400
Medicare License	769	769
Noncompetition Agreements	290	290
	12,859	12,859
Accumulated Amortization	(1,570)	(867)
	11,289	11,992
Total	$11,776	$12,587

The trade name intangible asset under the Specialty Pharmacy Segment is a non-amortizing intangible asset.

Amortization expense was $854, $919, and $310, for the fiscal years ended June 30, 2010, 2009 and 2008, respectively.

Goodwill consists of the following:

	June 30,	
	2010	2009
Healthcare Facilities Segment	$2,515	$2,944
Specialty Pharmacy Segment	6,509	6,509
	$9,024	$9,453

Annual amortization of amortizing intangibles for the next five years and thereafter is as follows:

2011	$ 638
2012	625
2013	612
2014	612
2015	612
2016 and thereafter	3,277
Total	$6,376

8. LONG-TERM DEBT

Long-term debt consisted of the following:

	June 30,	
	2010	2009
Term Loan	$30,836	$32,587
Capital lease obligations	51	108
Total	30,887	32,695
Less current maturities	(1,797)	(1,808)
	$29,090	$30,887

SunLink Credit Facilities—On October 15, 2004, SunLink entered into a $30,000 five-year senior secured credit facility ("2004 Credit Facility") comprised of a revolving line of credit of up to $15,000 with an interest rate at LIBOR plus 2.91%, a $10,000 term loan with an interest rate at LIBOR plus 3.91% and a $5,000 term loan facility with an interest rate at LIBOR plus 3.91%.

On April 23, 2008, SunLink repaid all outstanding balances and terminated the 2004 Credit Facility with a portion of the proceeds of a new $47,000 seven-year senior secured credit facility. The Company did not incur any early termination penalties in connection with the termination of the 2004 Credit Facility. A loss on early repayment of debt of approximately $267 was recorded in April 2008 as a result of writing-off remaining unamortized prepaid debt cost of the 2004 Credit Facility.

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 June 30, 2010) (the "Revolving Loan") and a $35,000 term loan with an interest rate at LIBOR plus 5.07% (7.82% at June 30, 2010) (the "Term Loan"). In the 2008 Credit Facility, LIBOR is defined as the Thirty-Day published rate, not to be less than 2.75%, nor more than 5.50%. The total availability of credit under all components of the 2008 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 $39,835 at June 30, 2010. 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 Facility, to pay the cash portion of the purchase price for the Carmichael acquisition, to pay fees and expenses thereunder and for general corporate purposes. The fees will be amortized over seven years at approximately $372 a year and are recorded in other assets and other non-current assets. Amortization expense and accumulated amortization was approximately $398 and $836, respectively, for the fiscal year ended June 30, 2010 and $378 and $438 for the fiscal year ended June 30, 2009. The 2008 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.

The 2008 Credit Facility contains various terms and conditions, including operational and financial restrictions and limitations, and affirmative and negative covenants. The covenants include financial covenants measured on a quarterly basis which require SunLink to comply with maximum leverage and minimum fixed charge ratios, maximum capital expenditure amounts, collateral value to loan amount and liquidity and cash flow measures, all as defined in the 2008 Credit Facility. At June 30, 2010, SunLink was in violation of certain financial covenants of the 2008 Credit Facility. The Company has received a waiver from its lender of these financial covenants for June 30, 2010. We believe that the Company should be able to continue in compliance with the revised levels of financial covenants and terms in the 2008 Credit Facility during the fiscal year ending June 30, 2011, but there is no assurance that the Company will be able to do so. As part of the waiver agreement, the termination date of the 2008 Credit Facility was changed from April 22, 2015 to September 30, 2011. It contains conditions for waivers of the non-compliance with financial covenants for the quarters ended September 30, 2010, December 31, 2011 and March 31, 2011. These conditions include reduced minimum consolidated adjusted earnings before interest, taxes deprecation and amortization amounts to be achieved. It also includes increases to the interest rate for the revolving loan to LIBOR plus 6.50% from the waiver date through November 14, 2010, LIBOR plus 7.50% from November 15, 2010 to February 15, 2011, LIBOR plus 8.50% from February 16, 2011 to May 14, 2011 and LIBOR plus 9.50% from May 15, 2011 to the September 30, 2011 termination date. It also increases the interest rate for the term loan to LIBOR plus 8.07% from the waiver date through November 14, 2010, LIBOR plus 9.07% from November 15, 2010 to February 15, 2011, LIBOR plus 10.07% from February 16, 2011 to May 14, 2011 and LIBOR plus 11.07% from May 15, 2011 to August 14, 2011. A waiver fee of 2% of the current 2008 Credit Facility commitment totaling approximately $788 was due at the waiver date and additional waiver fees of 0.5% of the total 2008 Credit Facility commitment will be payable at November 15, 2010, February 15, 2011 and May 15, 2011. The waiver includes other conditions related to a February 2011 $11,000 term loan reduction covenant which may increase the interest rate for both the term loan and the revolving loan by an additional 2% over the prescribed interest rate for the remainder of the agreement. We have also agreed to reduce the revolving line of credit facility commitment from $12,000 to $9,000. If we fail to remain in compliance with the 2008 Credit Facility, we would cease to have a right to draw on the revolving line of credit facility and the lenders would, among other things, be entitled to call a default and demand repayment of the indebtedness outstanding. If SunLink or its applicable subsidiaries experience a material adverse change in their business, assets, financial condition, management or operations, or if the value of the collateral securing the 2008 Credit Facility decreases, we may be unable to draw on the credit facility.

Annual required payments of debt for the next two years are as follows:

2011	$ 1,797
2012	29,090
Total	$30,887

The contractual commitments for interest on long-term debt are shown in the following table. The interest rate on variable interest debt is calculated at the interest rate at June 30, 2010.

2011	$3,375
2012	946
Total	$4,321

9. SUBORDINATED LONG-TERM DEBT

Subordinated long-term debt consisted of the following:

	June 30,	
	2010	**2009**
Carmichael	$2,550	$2,850
Less current maturities	(300)	(300)
	$2,250	$2,550

Carmichael Loan—On April 22, 2008, SunLink ScriptsRx, LLC (formerly know 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 principal and accrued interest. The note is subordinate to the 2008 Credit Facility.

Under the terms of the 2008 Credit Facility (see Note 8), if SunLink is in violation of certain terms and conditions of this Facility, the Company cannot make principal payments of the Carmichael Loan without permission of the 2008 Credit Facility lender. At June 30, 2010, SunLink was in violation of certain financial covenants of the 2008 Credit Facility, but has received a waiver of restriction of paying the principal and interest due under the Carmichael as long as SunLink is not in violation of the terms of the waiver agreement.

Annual required payments of debt for the next five years and thereafter are as follows:

2011	$ 300
2012	300
2013	300
2014	300
2015	1,350
Total	$2,550

The contractual commitments for interest on the subordinated long-term debt are shown in the following table.

2011	$192
2012	168
2013	144
2014	120
2015	108
Total	$732

10. SHAREHOLDERS' EQUITY

Employee and Directors Stock Option Plans—On November 7, 2005, the 2005 Equity Incentive Plan was approved by SunLink's shareholders at the Annual Meeting of Shareholders. This Plan permits the grant of options to employees, non-employee directors and service providers of SunLink for the purchase of up to 800,000 common shares plus the number of unused shares under the 2001 Plans, which is 30,675, by November 2015. This Plan restricts the number of Incentive Stock Options to 700,000 shares and Restricted Stock Awards to 200,000 shares. The combination of Incentive Stock Options and Restricted Stock Awards cannot exceed 800,000 shares plus the number of unused shares under the 2001 Plans. Each award of Restricted Shares reduces the number of share options to be granted by four option shares for each Restricted Share awarded. No options have been exercised under this plan. Options outstanding under this Plan were 272,999, 275,999 and 781,605 at June 30, 2010, 2009 and 2008, respectively.

On August 20, 2001, the 2001 Outside Directors' Stock Ownership and Stock Option Plan was approved by SunLink's shareholders at the Annual Meeting of Shareholders. This Plan permitted the grant of options to outside directors of SunLink for the purchase of up to 90,000 common shares through March 2006. Options for 90,000 shares were granted by March 2006. Options for 7,500 shares have been exercised under this plan. Options outstanding under this Plan were 82,500 at June 30, 2010, 2009 and 2008, respectively.

On February 28, 2001, the 2001 Long-Term Stock Option Plan was approved by the Board of Directors of SunLink. The 2001 Long-Term Stock Option Plan permitted the grant of options to officers and other key employees for the purchase of up to 810,000 common shares through February 2006. Options totaling 299,734 shares under this plan have been exercised. Options outstanding under this Plan were 38,125, 77,300, and 322,875 at June 30, 2010, 2009 and 2008, respectively.

SunLink's 1995 Incentive Stock Option Plan permitted the grant of options to officers and key employees to purchase up to 250,000 common shares through May 2005. Vesting and option expiration periods for options granted were determined by the Board of Directors but could not exceed 10 years. Options for 246,000 shares have been exercised and no options for shares were outstanding at June 30, 2010. 4,000 options for shares were outstanding at 2009 and 2008, respectively.

The activity of Company's share options is shown in the following table:

	Number of Shares	Weighted-Average Exercise Price	Range of Exercise Prices
Options outstanding July 1, 2008	742,031	$4.82	$1.50—$10.24
Granted	563,999	7.30	5.86—8.00
Exercised	(86,500)	1.61	1.50—3.00
Forfeited	(28,550)	7.49	3.82—9.63
Options outstanding June 30, 2008	1,190,980	6.20	1.50—10.24
Granted	28,000	2.51	2.51
Exercised	(118,450)	1.56	1.05—3.00
Forfeited	(660,731)	7.74	1.50—10.24
Options outstanding June 30, 2009	439,799	6.20	1.50—10.24
Granted	—	—	—
Exercised	(29,050)	1.72	1.50—2.50
Forfeited	(17,125)	3.41	2.51—5.48
Options outstanding June 30, 2010	393,624	$5.19	$ 1.50—$9.63
Options exercisable, June 30, 2008	663,071	$3.67	$1.50—$10.24
Options exercisable, June 30, 2009	353,799	$4.95	$1.50—$10.24
Options exercisable, June 30, 2010	348,285	$5.26	$ 1.50—$9.63

The weighted-average fair value of each option granted during the years ended June 30, 2009 and 2008 was $2.51, and $1.86, respectively. The fair value of each stock option grant was estimated using the Black-Scholes option pricing model with the following weighted-average assumptions used for grants during the years ended June 30, 2009 and 2008, respectively: estimated volatility of 57%, and 33%; risk-free interest rate of 2.75%, and 3.9%; dividend yield of 0% for all years; and an expected life of 6 years, and 5.2 years. The historical volatility is used to calculate the estimated volatility. The expected lives of the stock option grants were determined to be the midpoint between the vesting period and the contractual term of the grants. The estimate of the forfeited options in the compensation expense calculation was determined as the weighted-average forfeitures for the last three years. For the years ended June 30, 2010 and 2009, the Company recognized $40 and $190, respectively, of compensation expense for share options issued. As of June 30, 2010, there was $19 of unrecognized compensation cost related to nonvested share-based compensation arrangements granted under the Plans. That cost is expected to be recognized over a weighted average period of 1.98 years.

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 was 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 that such executive officer holds that have an exercise price equal to or greater than $6.00 per share. During the fiscal year ended June 30, 2009, stock options totaling 601,106 shares were relinquished under the Plan.

Information with respect to stock options outstanding and exercisable at June 30, 2010 is as follows:

Exercise Prices	Number Outstanding	Weighted-Average Remaining Contractual Life (in years)	Number Exercisable
$ 1.50	37,500	0.68	37,500
$ 2.50	12,500	1.48	12,500
$ 2.51	23,000	8.23	7,661
$ 2.65	9,000	1.19	9,000
$ 2.90	37,500	3.45	37,500
$ 2.91	12,000	0.77	12,000
$ 3.00	5,375	0.66	5,375
$ 4.00	5,000	0.59	5,000
$ 5.48	1,750	1.72	1,750
$ 5.86	150,000	4.81	120,000
$ 6.55	33,000	6.88	33,000
$ 8.00	33,999	7.24	33,999
$ 9.63	33,000	5.37	33,000
	393,624	4.48	348,285

The total intrinsic value of options exercised during the years ended June 30, 2010, 2009 and 2008 were $16, $72, and $277, respectively. As of June 30, 2010, the aggregate intrinsic value of options outstanding and shares exercisable were $29 and $29, respectively. As of June 30, 2009, the aggregate intrinsic value of options outstanding and shares exercisable were $40 and $40, respectively.

Shareholder Rights Plan—On February 8, 2004, the Board of Directors of the Company declared a dividend of one Series A Voting Preferred Purchase Price Right (a "Right") for each outstanding common share of the Company to record owners of common shares at the close of business on February 10, 2004. Shares issued subsequent to such date are issued with a Right. The Board of Directors declared these Rights to protect shareholders from coercive or otherwise unfair takeover tactics. The Rights should not interfere with any merger or other business combinations approved by the Board of Directors. The Rights expire on February 8, 2014 unless the Company redeems them at an earlier date. The Company may redeem the Rights in whole, but not in part, at a price of $0.001 per Right, at any time prior to a public announcement that a person has become an Acquiring Person.

Accumulated Other Comprehensive Income (Loss)—Information with respect to the balances of each classification within accumulated other comprehensive income (loss) is as follows:

	Foreign Currency Translation Adjustment	Minimum Pension Liability Adjustment	Accumulated Other Comprehensive Income (Loss)
June 30, 2007	$(339)	$(237)	$(576)
Current period change	12	(19)	(7)
June 30, 2008	(327)	(256)	(583)
Current period change	281	(35)	246
June 30, 2009	(46)	(291)	(337)
Current period change	46	(10)	36
June 30, 2010	$ —	$(301)	$(301)

11. INCOME TAXES

The provisions (benefits) for income taxes on continuing operations are as follows:

	Year ended June 30,		
	2010	2009	2008
Domestic:			
Current	$ 688	$ 2,505	$1,935
Deferred	(1,495)	(1,428)	(848)
Total income tax (benefit) expense	$ (807)	$ 1,077	$1,087

Net deferred tax assets recorded in the balance sheets are as follows:

	June 30,	
	2010	2009
Domestic:		
Net operating loss carryforward	$ 2,541	$ 2,424
Depreciation expense	(3,671)	(3,812)
Allowances for receivables	4,588	3,940
Accrued expenses	2,455	2,586
Pension liabilities	25	(8)
Other	(183)	(24)
	5,755	5,106
Less valuation allowance	(1,350)	(1,436)
Total net domestic deferred tax assets	4,405	3,670
Foreign:		
Net operating loss carryforwards	—	111
Tax prepayments not currently utilized	—	840
Restructuring	—	337
	—	1,288
Less valuation allowance	—	(1,288)
Total foreign deferred tax assets	—	—
Net deferred tax assets	$ 4,405	$ 3,670

The differences between income taxes at the Federal statutory rate and the effective tax rate were as follows:

	Years Ended June 30,		
	2010	2009	2008
Income taxes at Federal statutory rate	$(591)	$ 729	$1,053
Changes in valuation allowance—continuing operations	(86)	(78)	(79)
U.S. state income taxes, net of federal benefit	(348)	237	(88)
Share option expense	13	69	207
Other	205	120	(6)
Total income tax expense (benefit)—continuing operations	$(807)	$1,077	$1,087

The Company provided a $1,350 deferred tax valuation allowance for domestic assets as of June 30, 2010 so that the net domestic deferred tax assets were $4,405 as of June 30, 2010. Based upon management's assessment, it is 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. Accordingly, the Company adjusted its valuation allowance to $1,350 representing that portion of the net domestic tax asset which may not be utilized. The Company provided a $1,436 deferred tax valuation allowance for domestic assets as of June 30, 2009 so that the net domestic deferred tax assets were $3,670 as June 30, 2009. The domestic net operating loss carryforwards expire in 2023.

The Company provided a deferred tax valuation allowance for foreign tax assets as of June 30, 2009 so that the net foreign deferred tax assets are $0. Based upon management's assessment, it is more likely than not that none of its foreign deferred tax asset will be realized thorough future taxable earning or implementation of tax planning strategies. Usage of the foreign tax assets are considered less likely than not due to the current non-operating status of the Company's foreign subsidiaries.

The Company accounts for uncertainty in income taxes for a change in judgment related to prior years' tax positions in the quarter of such change. Activity in the unrecognized tax benefit liability account is as follows from July 1, 2008 through June 30, 2010:

Balance at July 1, 2008	$ 58
Additions based on tax positions related to current year	31
Additions for tax positions of prior years	—
Reductions for tax positions of prior years	(23)
Settlements	—
Balance at June 30, 2009	66
Additions based on tax positions related to current year	35
Additions for tax positions of prior years	—
Reductions for tax positions of prior years	(30)
Settlements	—
Balance at June 30, 2010	$ 71

12. NONCONTROLLING INTEREST

On February 1, 2008, SunLink sold 17% of the Chilton Medical Center in Clanton, Alabama, to individual physicians, most of who practice at that facility. The noncontrolling interest reported reflects these physicians ownership interest at June 30, 2010. On July 1, 2009, SunLink sold 49% of the pharmacy operations subsidiary in Ellijay, Georgia, to a corporation. The results of operations for the period from February 1, 2008 to June 30, 2010 were a loss and did not impact the ownership interest of the physicians or the corporation. In December 2007, the FASB issued new guidance relating to accounting for noncontrolling interests in consolidated financial statements and requires that noncontrolling interest in subsidiaries be reported in the equity section of the controlling company's balance sheet. The Company adopted this guidance on July 1, 2009 and has retroactively adjusted the accompanying June 30, 2009 consolidated balance sheet to conform to this accounting standard and the June 30, 2010 presentation.

13. EMPLOYEE BENEFITS

Defined Benefit Plans—No defined benefit plan is maintained for employees of either the Healthcare Facilities Segment or the Specialty Pharmacy Segment. Prior to SunLink's acquisition of its initial hospitals, it historically maintained defined benefit retirement plans covering substantially all of its employees. Effective

February 28, 1997, SunLink amended its domestic retirement plan to freeze participant benefits and close the plan to new participants. Benefits under the frozen plan are based on years of service and level of earnings. SunLink funds the frozen plan, which is noncontributory, at a rate that meets or exceeds the minimum amounts required by the Employee Retirement Income Security Act of 1974.

With the sale of SunLink's life sciences and engineering segment businesses in the fiscal year ended March 31, 1999, net pension expense is now classified as an expense of discontinued operations. During the years ended June 30, 2010 and 2009, SunLink recognized curtailment losses of $0 and $0, respectively, for partial plan settlement of pension obligations to vested former employees.

At June 30, 2010, the plan's assets are invested 80% in cash and short term investments, 10% in equity investments and 10% in fixed income investments. The plan's current investment policy of primarily investing in cash and short term investments is in response to the poor returns on investment of the past 5 years in the equity markets, the returns available in the fixed income markets and the possible need for immediate liquidity as participants retire or withdraw from the plan. The expected return on investment of 4.0% is based upon the plan's historical return on assets. The plan expects to pay $59, $56, $64, $61, and $69 in pension benefits in the years ended June 30, 2011 though 2015, respectively. The plan expects to pay $379 in pension benefits for the years June 30, 2016 through 2020, in the aggregate. This assumes the plan participants elect to take monthly pension benefits as opposed to a lump sum payout when they reach age 65. The Company expects to make no contributions to the plan in the year ending June 30, 2010.

The components of net pension expense for all plans (comprised solely of a domestic plan), excluding the curtailment losses above, were as follows:

	Years Ended June 30,		
	2010	2009	2008
Service cost	$ —	$ —	$ —
Interest cost	72	71	70
Expected return on assets	(45)	(49)	(52)
Amortization of prior service cost	44	36	31
Net pension expense	$ 71	$ 58	$ 49
Weighted-average assumptions:			
Discount rate	6.50%	6.50%	6.50%
Expected return on plan assets	4.00%	4.00%	4.00%
Rate of compensation increase	0.00%	0.00%	0.00%

Summary information for the plans (comprised solely of a domestic plan) is as follows:

	2010	2009
Change in Benefit Obligation		
Benefit obligation at the beginning of year	$1,136	$1,121
Interest cost	72	71
Actuarial loss	16	26
Benefits paid	(65)	(82)
Benefit obligation at end of year	$1,159	$1,136
Change in Plan Assets		
Fair value of plan assets at beginning of year	$1,157	$1,257
Actual return on plan assets	1	(18)
Benefits paid	(65)	(82)
Fair value of plan assets at end of year	$1,093	$1,157
Funded status of the plans	(65)	22
Unrecognized actuarial loss	484	467
Prepaid benefit cost	$ 419	$ 489
Amounts Recognized in Consolidated Balance Sheets		
Prepaid benefit cost	$ (65)	$ 22
Accumulated other comprehensive income*	484	467
Net amount recognized	$ 419	$ 489

* Accumulated other comprehensive income represents pretax minimum pension liability adjustments.

Defined Contribution Plan—In April 2001, SunLink adopted a defined contribution plan pursuant to IRS Section 401(k) covering substantially all domestic employees except for the employees of the two HealthMont hospitals. HealthMont had an existing 401(k) plan at the acquisition date which covered substantially all of the employees of the HealthMont hospitals. The HealthMont plan was merged into the SunLink plan in January 2005. SunLink matches a specified percentage of the employee's contribution as determined periodically by its management. No matching of HealthMont employees' contribution was made prior to the merger of the HealthMont plan into the SunLink plan. Plan expense was $0, $66, and $280, for the years ended June 30, 2010, 2009 and 2008, respectively.

14. COMMITMENTS AND CONTINGENCIES

Leases—The Company leases various land, buildings, and equipment under operating lease obligations having noncancelable terms ranging from one to 14 years. Rent expense was $3,316, $3,226, and $2,630, for the years ended June 30, 2010, 2009 and 2008, respectively. Minimum lease commitments as of June 30, 2009 are as follows:

Fiscal year ending June 30:	
2011	$3,397
2012	1,320
2013	805
2014	511
2015	433
2016 and thereafter	953
	$7,419

Lease Guarantee Obligation—In the 2004 HealthMont acquisition, SunLink assumed a lease guarantee obligation of $500 for a facility the Company did not occupy. During the fiscal year ended June 30, 2009, we learned that the guarantee had been extinguished through an agreement between the leasor and the current leasee of the property. As a result, SunLink reversed the recorded liability for the guarantee of $500.

Physician Guarantees—At June 30, 2010 SunLink had contracts with two physicians which contained guaranteed minimum gross receipts. A physician with whom the guarantee agreement is made generally agrees to maintain his/her practice within the hospital's geographic area for a specific period (normally three years) will be liable to repay all or a portion of the guarantee received if all conditions of the guarantee is not met. The physician's liability for any guarantee repayment due to non-compliance with guarantee provisions generally will be collateralized by the physician's patient accounts receivable and/or a promissory note from the physician. Included in the Company's consolidated balance sheet at June 30, 2010 is a liability of $144 for two physician guarantees. SunLink expensed $669, $844, and $747, for the fiscal years ended June 30, 2010, 2009 and 2008, respectively. Noncancelable commitments under these contracts as of June 30, 2010 are as follows:

Fiscal year ending June 30:	
2011	$343
Total	$343

Other—SunLink's business strategy is to focus its efforts on internal growth of its existing healthcare facilities and its pharmacy business, supplemented by growth from selected rural healthcare acquisitions, including but not limited to hospitals, nursing homes, home care businesses, and pharmacy businesses. Subject to the availability of debt and/or equity capital, SunLink's internal growth may include replacement or expansion of its existing healthcare facilities and pharmacy business operations involving substantial capital expenditures, as well as the expenditure of significant amounts of capital for selected acquisitions.

Litigation—The Company 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.

On August 6, 2007, the liquidator in an insolvency proceeding in the United Kingdom involving the Company's former subsidiary, KRUG International (UK) Limited ("KRUG UK") made an application (the "Application") in the Birmingham County Court in Birmingham, England, in which the liquidator sought 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 because, among other things, KRUG UK was then effectively insolvent and the approval of such transfers by the then directors of KRUG UK resulted in a breach of their fiduciary duties. The liquidator sought to have the court order the former directors or, in the alternative, the Company, be required to account for, repay or restore such funds to the liquidator of KRUG UK. All claims of the liquidator in the Application were settled on April 13, 2010 and are no longer outstanding with SunLink agreeing to pay approximately $1,400. SunLink's insurer under a Directors and Officers insurance policy contributed $480 with SunLink paying the difference of $920 in April 2010. The Company cancelled all preferred stock of its subsidiary held by KRUG UK.

On July 13, 2006, Piedmont Healthcare, Inc. and Piedmont Mountainside Hospital, Inc. (collectively "Piedmont") filed a Complaint in the Superior Court of Cobb County, Georgia, alleging that Southern Health Corporation of Jasper, Inc., SunLink Healthcare LLC (formerly SunLink Healthcare Corp.) and SunLink (collectively "Defendants" or "SunLink") breached an Asset Purchase Agreement (the "Agreement") dated as of April 9, 2004, pursuant to which the Mountainside Medical Center was sold to Piedmont. On August 11, 2006, SunLink filed an Answer to the complaint asserting factual and legal defenses, along with a Counterclaim asserting breach of contract and related claims against Piedmont.

On November 21, 2008, the Superior Court of Cobb County, Georgia, entered Orders denying Piedmont's motion for partial summary judgment and grating SunLink's motion for partial summary judgment. On May 27, 2010, Piedmont paid SunLink $1,246 representing the amount of the judgment plus accrued interest minus an offset of $90 for a separate claim Piedmont was pursuing against SunLink.

SunLink is pursuing additional claims including fees and costs. In response, Piedmont has announced they intend to seek an unspecified amount of attorneys' fees related its claim for $90 and perhaps attorneys' fees related to some other matters in the litigation. The trial court has scheduled a trial on all of the remaining claims for December 1 and 2, 2010.

On December 7, 2007, Southern Health Corporation of Ellijay, Inc. ("SHC-Ellijay") filed a Complaint against James P. Garrett and Roberta Mundy, both individually and as Fiduciary of the Estate of Randy Mundy (collectively, "Defendants"), seeking specific performance of an Option Agreement (the "Option Agreement") dated April 17, 2007, between SHC-Ellijay, Mr. Garrett, and Ms. Mundy as Executrix of the Estate of Randy Mundy for the sale of approximately 24.74 acres of real property located in Gilmer County, Georgia, and recovery of SHC-Ellijay's damages suffered as a result of Defendants' failure to close the transaction in accordance with the Option Agreement. SHC-Ellijay also stated alternative claims for breach of the Option Agreement and fraud, along with claims to recover attorney's fees and punitive damages.

In January 2008, the Mundys filed a motion to strike, motion to dismiss, answer, affirmative defenses, and a counterclaim against SHC-Ellijay. On March 3, 2009, SHC-Ellijay filed a First Amended and Restated Complaint for Damages, which effectively dropped the cause of action for specific performance of the Option Agreement. On May 7, 2009, Mr. Garrett and Ms. Mundy served a motion for summary judgment on all counts and causes of action stated in the First Amended Complaint. The court has postponed consideration of the defendants' motion for summary judgment and SHC-Ellijay's response thereto until after a discovery dispute between the parties has been resolved.

SunLink denies that it has any liability to the Mundys and intends to vigorously defend the claims asserted against SunLink by the Mundys complaint and to vigorously pursue its claims against the Mundys. While the ultimate outcome and materiality of the litigation cannot be determined, in management's opinion the litigation will not have a material adverse effect on SunLink's financial condition or results of operations.

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.

15. RELATED PARTIES

A director of the Company and the Company's secretary are members of two different law firms, each of which provides services to SunLink. We have paid an aggregate of $596, $585, and $1,154 to these law firms in the fiscal years ended June 30, 2010, 2009 and 2008, respectively.

16. FINANCIAL INFORMATION BY SEGMENTS

Prior to the acquisition of Carmichael in April 2008, we operated as a single business segment. Under ASC Topic No. 280, Segment Reporting, 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 income (loss). Segment information for the fiscal years ended June 30, 2010 and 2009 is as follows:

2010	Healthcare Facilities	Specialty Pharmacy	Corporate And Other	Total
Net Revenues from external customers	$154,822	$42,962	$ —	$197,784
Operating profit (loss)	7,658	(421)	(5,517)	1,720
Depreciation and amortization	4,719	1,636	448	6,803
Assets	60,419	25,195	12,876	98,490
Expenditures for property, plant and equipment	1,634	718	150	2,502
2009				
Net Revenues from external customers	$151,925	$46,130	$ —	$198,055
Operating profit (loss)	9,367	1,853	(5,541)	5,679
Depreciation and amortization	4,917	1,541	438	6,896
Assets	64,921	27,007	15,455	107,383
Expenditures for property, plant and equipment	990	515	66	1,571

17. EARNINGS PER SHARE
(Share Amounts in Thousands)

	Years Ended June 30,					
	2010		2009		2008	
	Amount	Per Share Amount	Amount	Per Share Amount	Amount	Per Share Amount
Earnings (loss) from continuing operations	$ (930)		$1,067		$2,009	
Basic:						
Weighted-average shares outstanding	8,052	$(0.12)	7,975	$ 0.13	7,605	$ 0.26
Diluted:						
Weighted-average shares outstanding	8,052	$(0.12)	8,019	$ 0.13	7,855	$ 0.26
Earnings (loss) from discontinued operations	$1,032		$ (155)		$ (393)	
Basic:						
Weighted-average shares outstanding	8,052	$ 0.13	7,975	$(0.02)	7,605	$(0.05)
Diluted:						
Weighted-average shares outstanding	8,052	$ 0.13	8,019	$(0.02)	7,855	$(0.05)
Net Earnings	$ 102		$ 912		$1,616	
Basic:						
Weighted-average shares outstanding	8,052	$ 0.01	7,975	$ 0.11	7,605	$ 0.21
Diluted:						
Weighted-average shares outstanding	8,052	$ 0.01	8,019	$ 0.11	7,855	$ 0.21
Weighted-average number of shares outstanding—basic	8,052		7,975		7,605	
Effect of dilutive director, employee and guarantor options and outstanding common share warrants	—		44		250	
Weighted-average number of shares outstanding—diluted	8,052		8,019		7,855	

Share options of 321 for the year ended June 30, 2010 are not included in the computation of diluted earnings per share because their effect would be antidilutive. Share options of 388 for the year ended June 30, 2009 are not included in the computation of diluted earnings per share because their effect would be antidilutive. Share options of 886 for the year ended June 30, 2008 are not included in the computation of diluted earnings per share because their effect would be antidilutive.

18. SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED) (Share Amounts in Thousands)

The following selected quarterly data for the years ended June 30, 2010 and 2009, respectively, are unaudited.

		Fourth Quarter	Third Quarter	Second Quarter	First Quarter
NET REVENUE	Year Ended June 30, 2010	$48,982	$51,429	$49,854	$47,519
	Year Ended June 30, 2009	$48,928	$53,280	$49,464	$46,383
EARNINGS (LOSS) FROM CONTINUING OPERATIONS	Year Ended June 30, 2010	(1,498)	430	(411)	549
	Year Ended June 30, 2009	850	981	(161)	(603)
NET EARNINGS (LOSS)	Year Ended June 30, 2010	(1,516)	1,646	(524)	496
	Year Ended June 30, 2009	891	949	(264)	(664)
EARNINGS (LOSS) PER SHARE:					
Continuing operations					
Basic	Year Ended June 30, 2010	(0.19)	0.05	(0.05)	0.07
	Year Ended June 30, 2009	0.11	0.12	(0.02)	(0.08)
Diluted	Year Ended June 30, 2010	(0.19)	0.05	(0.05)	0.07
	Year Ended June 30, 2009	0.11	0.12	(0.02)	(0.08)
Net earnings (loss):					
Basic	Year Ended June 30, 2010	(0.19)	0.20	(0.07)	0.06
	Year Ended June 30, 2009	0.11	0.12	(0.03)	(0.08)
Diluted	Year Ended June 30, 2010	(0.19)	0.20	(0.07)	0.06
	Year Ended June 30, 2009	0.11	0.12	(0.03)	(0.08)
WEIGHTED-AVERAGE COMMON SHARES OUTSTANDING:					
Basic	Year Ended June 30, 2010	8,058	8,057	8,050	8,050
	Year Ended June 30, 2009	8,001	7,999	7,990	7,933
Diluted	Year Ended June 30, 2010	8,058	8,069	8,050	8,050
	Year Ended June 30, 2009	8,020	7,999	7,990	7,933

Exhibit 21.1

LIST OF SUBSIDIARIES

The direct and indirect subsidiaries of SunLink Health Systems, Inc. are listed below, do business under the name under which they are organized, and are included in the consolidated financial statements of the Company. The names, jurisdiction of incorporation of such subsidiaries, and percentage of voting securities owned by the Company are set forth below.

Name of Subsidiary	Jurisdiction in Which Incorporated	Percentage of Voting Securities Owned
KRUG Properties Inc.	Ohio	100%(1)
SunLink Services, Inc.	Georgia	100%
SunLink ScriptsRx, LLC	Georgia	100%
SunLink Healthcare LLC	Georgia	100%
SunLink Pharmacy Management	Georgia	100%(8)
LTC ScriptsRx, LLC	Georgia	100%(8)
KRUG International (UK) Limited	United Kingdom	100%(6)
HealthMont LLC	Georgia	100%
Bradley International Holdings Limited	United Kingdom	100%(2)
Klippan S.A.R.L.	France	100%(1)(3)
Klippan GmbH	Germany	100%(1)(3)
Dexter Hospital LLC	Georgia	100%(4)
Clanton Hospital LLC	Georgia	83%(4)
Southern Health Corporation of Jasper, Inc.	Georgia	100%(1)(4)
Southern Health Corporation of Houston, Inc.	Georgia	100%(4)
Southern Health Corporation of Ellijay, Inc.	Georgia	100%(4)
Southern Health Corporation of Dahlonega, Inc.	Georgia	100%(4)
HealthMont of Georgia Inc.	Tennessee	100%(5)
HealthMont of Missouri, LLC	Georgia	100%(5)
Carmichael's Cashway Pharmacy, Inc.	Louisiana	100%(8)
Carmichael's Nutritional Distributor, Inc.	Louisiana	100%(9)
Breath of Life Home Health Equipment	Louisiana	100%(9)
Pickens Health Care Association, Inc.	Georgia	100%(1)(4)
HomeTown Health LLC	Georgia	47%
CastleLink Assurance Ltd.	Cayman Islands	100%
Southeastern Healthcare Alliance, Inc.	Georgia	100%(4)
Central Alabama Medical Associates, LLC	Georgia	100%(4)
Dahlonega Clinic LLC	Georgia	100%(7)

(1) Subsidiaries included within discontinued operations.
(2) Subsidiary of KRUG International (UK) Ltd. in liquidation
(3) Subsidiaries of Bradley International Holdings Ltd.
(4) Subsidiaries of SunLink Healthcare LLC
(5) Subsidiaries of HealthMont LLC
(6) In liquidation
(7) Subsidiary of Southern Health Corporation of Dahlonega, Inc.
(8) Subsidiary of SunLink ScriptsRx, LLC
(9) Subsidiary of Carmichael's Cashway Pharmacy, Inc.

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement No. 33-88190 of SunLink Health Systems, Inc. on Form S-3, Registration Statement No. 333-99667 of SunLink Health Systems, Inc. on Form S-8, Registration Statement No. 333-99669 of SunLink Health Systems, Inc. on Form S-8, and Registration Statement No. 333-137474 of SunLink Health Systems, Inc. on Form S-8, of our reports dated October 11, 2010, appearing in this Annual Report on Form 10-K of SunLink Health Systems, Inc. for the year ended June 30, 2010.

/s/Cherry, Bekaert & Holland, L.L.P.

Atlanta, Georgia
October 11, 2010

Exhibit 31.1

CERTIFICATION

I, Robert M. Thornton, Jr., the Chief Executive Officer of SunLink Health Systems, Inc. (the "Company"), certify that:

(1) I have reviewed this annual report on Form 10-K of the Company;

(2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

(3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this report;

(4) The Company's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the Company and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) [Intentionally Omitted];

(c) Evaluated the effectiveness of the Company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of June 30, 2010 (the "Evaluation Date") based on such evaluation; and

(d) Disclosed in this report any change in the Company's internal control over financial reporting that occurred during our most recent fiscal quarter ended on the Evaluation Date, that has materially affected , or is reasonably likely to materially affect, the Company's internal control over financial reporting; and

(5) The Company's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company's auditors and the audit committee of the Company's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting.

/s/ ROBERT M. THORNTON, JR.

Robert M. Thornton, Jr.
SunLink Health Systems, Inc.
Chief Executive Officer

October 12, 2010

Exhibit 31.2

CERTIFICATION

I, Mark J. Stockslager, the Chief Financial Officer of SunLink Health Systems, Inc. (the "Company"), certify that:

(1) I have reviewed this annual report on Form 10-K of the Company;

(2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

(3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this report;

(4) The Company's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the Company and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) [Intentionally Omitted];

(c) Evaluated the effectiveness of the Company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of June 30, 2010 (the "Evaluation Date") based on such evaluation; and

(d) Disclosed in this report any change in the Company's internal control over financial reporting that occurred during our recent fiscal quarter ended on the Evaluation Date, that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting; and

(5) The Company's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company's auditors and the audit committee of the Company's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting.

/s/ MARK J. STOCKSLAGER

Mark J. Stockslager
SunLink Health Systems, Inc.
Chief Financial Officer

October 12, 2010

Exhibit 32.1

SUNLINK HEALTH SYSTEMS, INC.
CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the annual report of SunLink Health Systems, Inc. (the "Company") on Form 10-K for the year ended June 30, 2010, as filed with the United States Securities and Exchange Commission on the date hereof (the "Report"), I, Robert M. Thornton, Jr., Chief Executive Officer of the Company, do hereby certify, pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ ROBERT M. THORNTON, JR.

Robert M. Thornton, Jr.
Chief Executive Officer

October 12, 2010

Exhibit 32.2

SUNLINK HEALTH SYSTEMS, INC.
CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the annual report of SunLink Health Systems, Inc. (the "Company") on Form 10-K for the year ended June 30, 2010, as filed with the United States Securities and Exchange Commission on the date hereof (the "Report"), I, Mark J. Stockslager, Chief Financial Officer of the Company, do hereby certify, pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ MARK J. STOCKSLAGER

Mark J. Stockslager
Chief Financial Officer

October 12, 2010

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Shareholder Information

Registered Public Accounting Firm
Cherry, Bekaert & Holland, L.L.P.
1180 West Peachtree, Suite 1400
Atlanta, GA 30309

General Counsel
James J. Mulligan, Esq.
Attorney at Law
Mulligan & Mulligan
812 Timberlake Court
Dayton, Ohio 45429

Transfer Agent and Registrar
American Stock Transfer
Attn: Shareholder Services
10150 Mallard Creek Road, Suite 307
Charlotte, NC 28262
1-866-668-6550

Annual Meeting
The Annual Meeting of Shareholders will be held **Monday, November 8, 2010, at 10:00 a.m. Local Time at the Renaissance Waverly Hotel 2450 Galleria Parkway Atlanta, Georgia 30339**

Corporate Headquarters
SunLink Health Systems, Inc.
900 Circle 75 Parkway, Suite 1120
Atlanta, Georgia, 30339
(770) 933-7000
Email: sunlink@sunlinkhealth.com
www.sunlinkhealth.com

Stock Exchange Listing
The Company's common stock is traded on the American Stock Exchange under the symbol **SSY**.

Investor Contact
For information write:
SunLink Health Systems, Inc.
900 Circle 75 Parkway, Suite 1120
Atlanta, GA 30339
(770) 933-7000

Copies of the Exhibits to the Annual Report on Form 10-K can be obtained by writing to the Corporate Headquarters at the address listed above under "Investor Contact," and enclosing $0.20 per page to cover photocopying expenses. Exhibits are also available through the SEC's EDGAR database, accessible on the Internet at www.sec.gov.

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