

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the quarterly period ended December 31, 2024

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission File Number 1-12607

**SUNLINK HEALTH SYSTEMS, INC.**  
(Exact name of registrant as specified in its charter)

**Georgia**  
(State or other jurisdiction of  
incorporation or organization)

**31-0621189**  
(I.R.S. Employer  
Identification No.)

900 Circle 75 Parkway, Suite 690, Atlanta, Georgia 30339  
(Address of principal executive offices)  
(Zip Code)  
(770) 933-7000  
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

**Title of each class**  
Common Shares without par value

**Trading Symbol(s)**  
SSY

**Name of each exchange on which registered Symbol(s)**  
NYSE American

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes  No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

Securities registered pursuant to Section 12(b) of the Act:

The number of Common Shares, without par value, outstanding as of February 11, 2025 was 7,040,603.

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

SUNLINK HEALTH SYSTEMS, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS  
(In thousands)

		December 31, 2024 (unaudited)	June 30, 2024
<b>ASSETS</b>			
Current Assets:			
Cash and cash equivalents		\$ 8,020	\$ 7,170
Receivables - net		2,831	3,371
Inventory		1,554	1,553
Current assets held for sale		256	1,959
Prepaid expense and other assets		1,545	1,611
Total current assets		14,206	15,664
Property, plant and equipment, at cost		10,884	12,683
Less accumulated depreciation		(8,831)	(9,874)
Property, plant and equipment - net		2,053	2,809
Noncurrent Assets:			
Intangible asset		1,180	1,180
Right of use assets		389	516
Other noncurrent assets		44	443
Total noncurrent assets		1,613	2,139
<b>TOTAL ASSETS</b>		<b>\$ 17,872</b>	<b>\$ 20,612</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
Current Liabilities:			
Accounts payable		\$ 1,151	\$ 1,905
Accrued payroll and related taxes		986	955
Current liabilities held for sale		106	0
Current operating lease liabilities		320	331
Other accrued expenses		932	1,022
Total current liabilities		3,495	4,213
Long-Term Liabilities			
Noncurrent liability for professional liability risks		95	49
Long-term operating lease liabilities		79	197
Other noncurrent liabilities		122	180
Total long-term liabilities		296	426
Commitments and Contingencies			
Shareholders' Equity			
Preferred Shares, authorized and unissued, 2,000 shares		0	0
Common Shares, without par value:			
Issued and outstanding, 7,041 shares at December 31, 2024 and 7,041 at June 30, 2024		3,521	3,521
Additional paid-in capital		10,747	10,747
Retained earnings (deficit)		(414)	1,478
Accumulated other comprehensive income		227	227
Total Shareholders' Equity		14,081	15,973
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>\$ 17,872</b>	<b>\$ 20,612</b>

See notes to condensed consolidated financial statements.

**SUNLINK HEALTH SYSTEMS, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
**AND COMPREHENSIVE EARNINGS (LOSS)**  
(In thousands, except per share amounts)  
(Unaudited)

	Three Months Ended December 31,		Six Months Ended December 31,	
	2024	2023	2024	2023
Net revenues	\$ 7,935	\$ 8,510	\$ 15,858	\$ 17,065
Costs and Expenses:				
Cost of goods sold	4,618	4,761	9,093	9,532
Salaries, wages and benefits	2,713	2,668	5,791	5,285
Supplies	40	39	74	73
Purchased services	326	281	645	567
Other operating expenses	833	784	1,637	1,690
Rent and lease expense	93	92	187	183
Depreciation and amortization	324	318	637	618
Operating Loss	(1,012)	(433)	(2,206)	(883)
Other Income (Expense):				
Gains on sale of assets	0	0	694	2
Impairment loss	(100)	0	(100)	0
Interest income, net	42	29	100	51
Loss from Continuing Operations before income taxes	(1,070)	(404)	(1,512)	(830)
Income Tax Expense	0	3	0	5
Loss from Continuing Operations	(1,070)	(407)	(1,512)	(835)
Loss from Discontinued Operations, net of tax	(273)	(2,668)	(380)	(3,584)
Net Loss	(1,343)	(3,075)	(1,892)	(4,419)
Other comprehensive income				
Comprehensive Loss	\$ (1,343)	\$ (3,075)	\$ (1,892)	\$ (4,419)
Loss Per Share:				
Continuing Operations:				
Basic	\$ (0.15)	\$ (0.06)	\$ (0.21)	\$ (0.12)
Diluted	\$ (0.15)	\$ (0.06)	\$ (0.21)	\$ (0.12)
Discontinued Operations:				
Basic	\$ (0.04)	\$ (0.38)	\$ (0.05)	\$ (0.51)
Diluted	\$ (0.04)	\$ (0.38)	\$ (0.05)	\$ (0.51)
Net Loss:				
Basic	\$ (0.19)	\$ (0.44)	\$ (0.27)	\$ (0.63)
Diluted	\$ (0.19)	\$ (0.44)	\$ (0.27)	\$ (0.63)
Weighted-Average Common Shares Outstanding:				
Basic	7,041	7,040	7,041	7,039
Diluted	7,041	7,040	7,041	7,039

See notes to condensed consolidated financial statements.

**SUNLINK HEALTH SYSTEMS, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY**  
(in thousands)  
(Unaudited)

	Common Shares Shares	Amount	Additional Paid-in Capital	Retained Earnings (Deficit)	Accumulated Other Comprehensive Income	Total Shareholders' Equity
<b>JUNE 30, 2024</b>	<b>7,041</b>	<b>\$ 3,521</b>	<b>\$ 10,747</b>	<b>\$ 1,478</b>	<b>\$ 227</b>	<b>\$ 15,973</b>
Net loss	0	0	0	(549)	0	(549)
<b>SEPTEMBER 30, 2024</b>	<b>7,041</b>	<b>\$ 3,521</b>	<b>\$ 10,747</b>	<b>\$ 929</b>	<b>\$ 227</b>	<b>\$ 15,424</b>
Net loss	0	0	0	(1,343)	0	(1,343)
<b>DECEMBER 31, 2024</b>	<b>7,041</b>	<b>\$ 3,521</b>	<b>\$ 10,747</b>	<b>(414)</b>	<b>\$ 227</b>	<b>\$ 14,081</b>
<b>JUNE 30, 2023</b>	<b>7,032</b>	<b>\$ 3,516</b>	<b>\$ 10,746</b>	<b>\$ 3,005</b>	<b>\$ 150</b>	<b>\$ 17,417</b>
Share options exercised	9	5	1	0	0	6
Net loss	0	0	0	(1,344)	0	(1,344)
<b>SEPTEMBER 30, 2023</b>	<b>\$ 7,041</b>	<b>\$ 3,521</b>	<b>\$ 10,747</b>	<b>\$ 1,661</b>	<b>\$ 150</b>	<b>\$ 16,079</b>
Net loss	0	0	0	(3,075)	0	(3,075)
<b>DECEMBER 31, 2023</b>	<b>7,041</b>	<b>\$ 3,521</b>	<b>\$ 10,747</b>	<b>(1,414)</b>	<b>\$ 150</b>	<b>\$ 13,004</b>

See notes to condensed consolidated financial statements.

**SUNLINK HEALTH SYSTEMS, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
 (In thousands)  
 (Unaudited)

	2024	Six Months December 31,	2023
Net Cash Used in Operating Activities	\$ (2,082)	\$ (1,530)	
Cash Flows Provided by (Used in) Investing Activities:			
Expenditures for property, plant and equipment - continuing operations	(365)	(824)	
Expenditures for property, plant and equipment - discontinued operations	0	(74)	
Proceeds from sale of property, plant and equipment - continuing operations	401	5	
Proceeds from sale of property, plant and equipment - discontinued operations	1,832	0	
Proceeds from sale of investment in minority owned equity investment	1,064	0	
Net Cash Provided by (Used in) Investing Activities	2,932	(893)	
Cash Flows Provided by (Used in) Financing Activities:			
Proceeds from share options exercises	0	6	
Payments on long-term debt - discontinued operations	0	(14)	
Net Cash Used in Financing Activities	0	(8)	
Net Increase (Decrease) in Cash and Cash Equivalents	850	(2,431)	
Cash and Cash Equivalents Beginning of Period	7,170	4,486	
Cash and Cash Equivalents End of Period	<u>\$ 8,020</u>	<u>\$ 2,055</u>	
Supplemental Disclosure of Cash Flow Information:			
Cash Paid (Received) for:			
Interest	\$ (100)	\$ (51)	
Income taxes	<u>\$ 0</u>	<u>\$ 105</u>	
Non-cash investing and financing activities:			
Right-of-use assets obtained in exchange for operating lease liabilities	<u>\$ 37</u>	<u>\$ 18</u>	

See notes to condensed consolidated financial statements.

**SUNLINK HEALTH SYSTEMS, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**THREE AND SIX MONTHS ENDED DECEMBER 31, 2024**  
**(all dollar amounts in thousands except per share amounts)**

(Unaudited)

**Note 1. –Basis of Presentation**

The accompanying unaudited Condensed Consolidated Financial Statements as of December 31, 2024 and for the three and six month periods ended December 31, 2024 and 2023 have been prepared in accordance with Rule 8-03 and Article 8-03 of Regulation S-X of the Securities and Exchange Commission ("SEC") and, as such, do not include all information required by accounting principles generally accepted in the United States of America ("GAAP"). The condensed consolidated June 30, 2024 balance sheet included in this interim filing has been derived from the audited consolidated financial statements at that date but does not include all the information and related notes required by GAAP for complete consolidated financial statements. These Condensed Consolidated Financial Statements should be read in conjunction with the audited consolidated financial statements included in the SunLink Health Systems, Inc. ("SunLink", "we", "our", "ours", "us" or the "Company") Annual Report on Form 10-K for the fiscal year ended June 30, 2024, filed with the SEC on September 30, 2024. In the opinion of management, the Condensed Consolidated Financial Statements, which are unaudited, include all adjustments, consisting only of normal recurring adjustments, necessary to present fairly the financial position and results of operations for the periods indicated. The results of operations for the three and six month periods ended December 31, 2024 are not necessarily indicative of the results that may be expected for the entire fiscal year or any other interim period.

Throughout these notes to the condensed consolidated financial statements, SunLink Health Systems, Inc., and its consolidated subsidiaries are referred to on a collective basis as "SunLink", "we", "our", "ours", "us" or the "Company." This drafting style is not meant to indicate that SunLink Health Systems, Inc. or any particular subsidiary of the Company owns or operates any particular asset, business or property. Each operation and business described in this filing is owned and operated by a distinct and indirect subsidiary of SunLink Health Systems, Inc.

**Note 2. – Merger**

On January 6, 2025, the Company and Regional Health Properties, Inc. ("Regional") jointly announced that they have entered into a definitive agreement and plan of merger (the "merger agreement"), dated January 3, 2025 pursuant to which the Company to merge with and into Regional (the "merger") in exchange for the issuance of an aggregate of 1,410,000 shares of Regional common stock and 1,410,000 shares of Regional's newly-authorized Series D 8% Cumulative Convertible Redeemable Preferred Stock with a liquidation preference of \$10 per share. The merger has been approved unanimously by each company's board of directors and completion of the transaction is subject to the receipt of the approvals of the shareholders of both Regional and the Company, regulatory approvals and satisfaction of customary closing conditions. If this merger is concluded after shareholder approved, then Regional will be the surviving entity and the Company will no longer exist.

**Note 3. – Business Operations**

The Company's continuing operations are composed of a pharmacy business. A subsidiary, SunLink Health Systems Technology ("SHST Technology"), an information technology ("IT") business that was sold in January 2025. Its net assets and liabilities are shown as current assets held for sale and current liabilities held for sale on the December 31, 2024 condensed consolidated balance sheet.

The pharmacy business, is composed of four operational areas conducted in three locations in southwest Louisiana:

- Retail pharmacy products and services, consisting of retail pharmacy sales.

· Institutional pharmacy services consisting of the provision of specialty and non-specialty pharmaceutical and biological products to institutional clients or to patients in institutional settings, such as extended care and rehabilitation centers, nursing homes, assisted living facilities, behavioral and specialty hospitals, hospice, and correctional facilities.

· Non-institutional pharmacy services consisting of the provision of specialty and non-specialty pharmaceutical and biological products to clients or patients in non-institutional settings including private residential homes.

· Durable medical equipment products and services ("DME"), consisting primarily of the sale and rental of products for institutional clients or to patients in institutional settings and patient-administered home care.

#### **COVID-19 Pandemic**

The Company's operations for the six months ended December 31, 2024 continued to be negatively impacted by the effects of the aftermath of the COVID-19 pandemic, although mitigated somewhat from prior quarters, including among other factors, difficulty hiring qualified employees, rising labor and supply costs, and supply chain challenges resulting in inability to obtain pharmacy and DME products on a timely, cost effective basis.

#### **Note 4. – Discontinued Operations**

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

***Sale of Trace Regional Hospital, medical office building, three patient clinics, and Trace Extended Care operations*** – On January 22, 2024, the Company's indirect subsidiary, Southern Health Corporation of Houston, Inc. ("Southern"), reached revised agreements (the "Revised Agreements") for the sale of Trace Regional Hospital, a vacant medical office building and three (3) patient clinics in Chickasaw County, MS, (collectively "Trace") to Progressive Health of Houston, LLC ("Progressive") pursuant to which (i) Southern sold certain personal and intangible property to Progressive for \$500 under to an asset purchase agreement ("Trace Hospital Assets Sale"), (ii) entered into a six-month net lease of the real property of the hospital, medical office building and the clinics real property (the "Trace Real Estate") for \$20 per month, (iii) entered into a contract to sell the Trace real estate to Progressive (the "Trace Real Estate Sale") for \$2,000 and (iv) engaged Progressive under a management agreement to manage the operations of Trace pending receipt of certain regulatory approvals, which were received February 29, 2024. The Company recorded a loss of \$962 on the Trace Hospital Assets Sale during the year ended June 30, 2024, which included sale expenses of \$174. The Trace Real Estate Sale was completed on October 9, 2024. The Company received net proceeds of \$1,832 at closing. The Company reported a loss of \$110 in the quarter ended December 31, 2024 related to additional sale expenses. The Company had earlier reported an additional asset impairment reserve of \$44 in the quarter ended September 30, 2024 for transaction expenses incurred at the sale date. SunLink earlier reported an impairment loss of \$1,974 at December 31, 2023 to reduce the net value of the Trace hospital assets to the estimated sale proceeds under the revised agreement. On June 3, 2024, the Company's indirect subsidiary, Southern Health Corporation of Houston, Inc. and an affiliate completed the sale of its Trace Extended Care & Rehab senior care facility ("Trace Extended Care") and related real estate in Houston, Mississippi for approximately \$7,100 (the "Trace Extended Care Facility Sale"). The net proceeds of approximately \$6,522 have been retained for working capital and general corporate purposes. The Company recorded a gain of \$5,584 during the fiscal year ended June 30, 2024 on the Trace Extended Care Facility Sale, which included sale expenses of \$578.

***Sold Facilities*** – Subsidiaries of the Company have sold substantially all the assets of five (5) other hospitals ("Sold Facilities") during the period July 2, 2012 to March 17, 2019. The loss before income taxes of the Sold Facilities results primarily from the effects of retained professional liability insurance and claims expenses, a prior year negative cost report settlement for a closed hospital and settlement of a lawsuit.

***Life Sciences and Engineering Segment*** – SunLink retained a defined benefit retirement plan which covered substantially all the employees of this segment when the segment was sold in fiscal year 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 discontinued operations for this segment for the three and six months ended December 31, 2024 and 2023, respectively.

The components of pension expense for the three and six months ended December 31, 2024 and 2023, respectively, were as follows:

	Three Months Ended December 31,		Six Months Ended December 31,	
	2024	2023	2024	2023
Interest cost	\$ 9	\$ 11	\$ 18	\$ 22
Expected return on assets	(12)	(9)	(25)	(18)
Amortization of prior service cost	0	0	0	0
Net pension (income) expense	\$ (3)	\$ 2	\$ (7)	\$ 4

Per the Actuarial Valuation Report for the plan year beginning July 1, 2024, no minimum contribution amount is required for the pension plan year ended June 30, 2025. As such SunLink did not make any contributions to the plan during the six months ended December 31, 2024 and does not plan contribute any funds during the last six months of the fiscal year ending June 30, 2025.

**Statements of operations from discontinued operations for the three and six months ended December 31, 2024 and 2023.**

The results below primarily reflect the reporting of Trace as discontinued operations as a result of the Company's Revised agreement to sell Trace and its sale of Trace Extended Care, are as follows:

	Three Months Ended December 31,		Six Months Ended December 31,	
	2024	2023	2024	2023
Net Revenues	\$ (62)	\$ 2,771	\$ (46)	\$ 5,443
Costs and Expenses:				
Salaries, wages and benefits	104	1,844	115	3,742
Supplies	0	267	0	556
Purchased services	25	600	69	1,307
Other operating expense	(28)	529	(4)	1,057
Rent and lease expense	0	34	0	67
Depreciation and amortization	0	133	0	266
Operating Loss	(163)	(636)	(226)	(1,552)
Other Income (Expense):				
Impairment loss of Trace Hospital Real Estate and related sale expenses	0	(2,032)	(44)	(2,032)
Loss on sale of Trace Hospital Real Estate and related sale expenses	(110)	0	(110)	0
Loss from Discontinued Operations before income taxes	(273)	(2,668)	(380)	(3,584)
Income Tax Expense	0	0	0	0
Loss from Discontinued Operations, net of tax	\$ (273)	\$ (2,668)	\$ (380)	\$ (3,584)

**Details of assets and liabilities held for sale of discontinued operations at December 31, 2024 and June 30, 2024, are as follows:**

	December 31, 2024	June 30, 2024
Property, plant and equipment, net	\$ 0	\$ 3,654
Impairment reserve	0	(1,695)
Total assets held for sale	<u>0</u>	<u>1,959</u>

**Note 5. – Shareholders' Equity**

**Stock-Based Compensation** – For the three and six months ended December 31, 2024 and 2023, the Company recognized no stock-based compensation for options issued to employees and directors of the Company. There were no shares issued as a result of options exercised during the three and six months ended December 31, 2024. There were 9,000 shares issued as a result of options exercised during the six months ended December 31, 2023.

**Note 6. – Revenue and Accounts Receivable**

**Disaggregation of Revenue**

The Company disaggregates revenue from contracts with its patients by payors. The Company determines that disaggregating revenue into these categories achieves the disclosure objectives to depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. A reconciliation of disaggregated revenue is shown below.

Revenues by payor were as follows for the three and six months ended December 31, 2024 and 2023:

	Three Months Ended December 31,		Six Months Ended December 31,	
	2024	2023	2024	2023
Medicare	\$ 3,589	\$ 3,984	\$ 7,308	\$ 7,814
Medicaid	1,672	1,742	3,398	3,392
Retail and Institutional Pharmacy	1,854	1,618	3,650	3,322
Private Insurance	587	987	1,054	2,157
Self-pay	211	163	408	343
Other	22	16	40	37
<b>Total Net Revenues</b>	<b>\$ 7,935</b>	<b>\$ 8,510</b>	<b>\$ 15,858</b>	<b>\$ 17,065</b>

The revenues for the three months ended December 31, 2023 includes \$59 of prior period sales tax refunds. The revenues for the six months ended December 31, 2023 includes \$380 of prior period sales tax refunds.

The Company's service specific revenue recognition policies are as follows:

**Pharmacy**

The Company's revenue is derived primarily from providing pharmacy goods and services to patients and is recognized on the date goods and services are provided at amounts billable to individual patients, adjusted for estimates for variable consideration. Revenue is recognized when control of the promised goods or services are transferred to customers, in an amount that reflects the consideration the Company expects to be entitled to in exchange for those goods or services. Each prescription claim represents a separate performance obligation of the Company, separate and distinct from other prescription claims under customer arrangements. Significant portions of the revenue from sales of pharmaceutical and medical products are reimbursed by the federal Medicare Part D program and, to a lesser extent, state Medicaid programs. The Company monitors its revenues and receivables from these reimbursement sources, as well as other third-party insurance payors, and reduces revenue at the revenue recognition date, to properly account for the variable consideration due to anticipated differences between billed and

reimbursed amounts. Accordingly, the total net revenues and receivables reported in the Company's condensed consolidated financial statements are recorded at the amount expected to be ultimately received from these payors.

#### **Receivables and Provision for Credit Losses**

The Company adopted Financial Accounting Standards Board Accounting Standards Codification ("ASC") Topic 326, Financial Statements – Credit Losses ("Topic 326") with an adoption date of July 1, 2023. This standard requires a financial asset (or a group of financial assets) measured at amortized cost basis, to be presented at the net amount expected to be collected. The allowance for credit losses is a valuation account that is deducted from the amortized cost basis of the financial asset(s) to present the net carrying value at the amount expected to be collected on the financial assets. The Company evaluates the valuation of accounts receivable concessions allowances based upon its historical collection trends, as well as its understanding of the nature and collectability of accounts based on their age and other factors. The model is based on the credit losses expected to arise over the life of the asset based on the Company's expectations as of the balance sheet date through analyzing historical customer data as well as taking into consideration current and estimated future economic trends. The Company adopted Topic 326 and determined it did not have a material financial impact.

The roll forward of the allowance for credit losses for the three and six months ended December 31, 2024 and 2023, was as follows:

	Six Months Ended December 31, 2024	Six Months Ended December 31, 2023
June 30, balance	\$ 240	\$ 532
Concession allowance expense	61	79
Write-offs	(45)	(203)
September 30, balance	256	408
Concession allowance expense	86	67
Write-offs	(110)	(104)
December 31, balance	<u>232</u>	<u>371</u>

#### **Note 7. – Intangible Assets**

As of December 31, 2024 and June 30, 2024, intangible assets consist solely of an indefinite-lived trade name of \$1,180 relating to its Carmichael acquisition.

#### **Note 8. – Asset Sales**

On August 2, 2024, the Company sold all its minority equity ownership investment in a subsidiary to the majority owner for cash of \$1,064 which resulted in a pre-tax gain on the sale of \$665 for the quarter ended September 30, 2024.

On September 6, 2024, the Company sold 24.7 acres of undeveloped land in Ellijay, GA, for cash of \$401 which resulted in a pre-tax gain on the sale of \$29 for the quarter ended September 30, 2024.

#### **Note 9. – Income Taxes**

No income tax expense was recorded for continuing operations for the three and six months ended December 31, 2024. Income tax expense of \$3 (all state income taxes) was recorded for continuing operations for the three months ended December 31, 2023 and income tax expense of \$5 (all state income taxes) was recorded for continuing operations ended December 31, 2023.

In accordance with the Financial Accounting Standards Board Accounting Standards Codification ("ASC") 740, we evaluate our deferred taxes quarterly to determine if adjustments to our valuation allowance are required based on the consideration of available positive and negative evidence using a "more likely than not" standard with respect to whether deferred tax assets will be realized. Our evaluation considers, among other factors, our historical operating results, our expectation of future results of operations, the duration of applicable statutory carryforward periods and conditions of the healthcare industry. The ultimate realization of our deferred tax assets depends primarily on our ability to generate future taxable income during the periods in which the related temporary differences in the financial basis and the tax basis of the assets become deductible. The value of our deferred tax assets will depend on applicable income tax rates.

At December 31, 2024, consistent with the above process, we evaluated the need for a valuation allowance against our deferred tax assets and determined that it was more likely than not that none of our deferred tax assets would be realized. As a result, in accordance with ASC 740, we recognized a valuation allowance of \$8,517 against the deferred tax asset so that there is no net long-term deferred income tax asset at December 31, 2024. We conducted our evaluation by considering available positive and negative evidence to determine our ability to realize our deferred tax assets. In our evaluation, we gave more significant weight to evidence that was objective in nature as compared to subjective evidence. A long-term deferred tax liability of \$69 is recorded within other noncurrent liabilities in the accompanying condensed consolidated balance sheet of December 31, 2024 to reflect the deferred tax liability for the non-amortizing trade name intangible asset.

The principal negative evidence that led us to determine at December 31, 2024 that all the deferred tax assets should have full valuation allowances was historical tax losses and the projected current fiscal year tax loss. For purposes of evaluating our valuations allowances, the Company's history of losses represent significant historical negative evidence and we have recognized none of our federal income tax net operating loss carry-forward of approximately \$29,169.

For federal income tax purposes, at December 31, 2024, the Company had approximately \$29,169 of estimated net operating loss carry-forwards available for use in future years subject to the possible limitations of the provisions of Internal Revenue Code Section 382. These net operating loss carryforwards expire primarily in fiscal year 2025 through fiscal year 2038; however, with the enactment of the Tax Cut and Jobs Act on December 22, 2017, federal net operating loss carryforwards generated in taxable years beginning after December 31, 2017 now have no expiration date. The Company's returns for the periods prior to the fiscal year ended June 30, 2020 are no longer subject to potential federal and state income tax examination. Net operating loss carry-forwards generated in tax years prior to June 30, 2020 are still subject to redetermination in potential federal income tax examination.

#### **Note 10. – Leases**

The Company, as lessee, has operating leases relating to its pharmacy operations, certain medical equipment, and office equipment. All lease agreements generally require the Company to pay maintenance, repairs, property taxes and insurance costs, all of which are variable amounts based on actual costs. Variable lease costs also include escalating rent payments that are not fixed at commencement but are based on an index determined in future periods over the lease term based on changes in the Consumer Price Index or other measure of cost inflation. Some leases include one or more options to renew the lease at the end of the initial term, with renewal terms that generally extend the lease at the then market rental rates. Leases may also include an option to buy the underlying asset at or a short time prior to the termination of the lease. All such options are at the Company's discretion and are evaluated at the commencement of the lease, with only those that are reasonably certain of exercise included in determining the appropriate lease term. The

components of lease cost and rent expense for the three and six months ended December 31, 2024 and 2023 are as follows:

Lease Cost	Three Months Ended December 31, 2024	Three Months Ended December 31, 2023	Six Months Ended December 31, 2024	Six Months Ended December 31, 2023
Operating lease cost:				
Operating lease cost	\$ 86	\$ 85	\$ 171	\$ 170
Short-term rent expense	11	7	19	12
Variable lease cost	(4)	0	(3)	1
Total operating lease cost	<u>\$ 93</u>	<u>\$ 92</u>	<u>\$ 187</u>	<u>\$ 183</u>

Supplemental balance sheet information relating to leases was as follows:

Operating Leases:	Balance Sheet Classifications	As of December 31, 2024	As of June 30, 2024
Operating lease ROU Assets	ROU Assets	\$ 389	\$ 516
Current operating lease liabilities	Current operating lease liabilities	320	331
Long-term operating lease liabilities	Long-term operating lease liabilities	\$ 79	\$ 197

Supplemental cash flow and other information related to leases as of and for the three and six months ended December 31, 2024 and 2023 are as follows:

Other information	Three Months Ended		Six Months Ended	
	December 31, 2024	December 31, 2023	December 31, 2024	December 31, 2023
Cash paid for amounts included in the measurement of lease liabilities:				
Operating cash flows of operating leases	\$ 87	\$ 85	\$ 174	\$ 170
Right-of-use assets obtained in exchange for new operating lease liabilities	0	0	37	18
Weighted-average remaining lease term:				
Operating leases	2.34 years	2.06 years	2.34 years	2.06 years
Weighted-average discount rate:				
Operating leases	1.14%	0.98%	1.14%	0.98%

Commitments relating to non-cancellable operating leases as of December 31, 2024 for each of the next five years and thereafter are as follows:

Payments due within	Operating Leases
1 year	\$ 320
2 years	62
3 years	18
4 years	1
5 years	0
Over 5 years	0
Total minimum future payments	401
Less: Imputed interest	(2)
Total liabilities	399
Less: Current portion	(320)
Long-term liabilities	<u>\$ 79</u>

**Note 11. – Sales Tax Payable**

During the fiscal year ended June 30, 2019, the pharmacy business amended its sales tax position with four different taxing authorities to avail its business of exemptions from state and local sales taxes in Louisiana on revenues from the sales of products and services to beneficiaries of government insurance programs to the extent reimbursed by the administrators of such programs. No such sales taxes for any period subsequent to June 30, 2019 have been paid on the related reimbursement received from the government insurance payers' programs with respect to sales of such products and services. The Company has filed amended sales tax returns for periods still open under the applicable statutes of limitations claiming refunds of such sales taxes paid. During the three months ended December 31, 2023, the Company recorded a refund received of \$59 as revenue for a sales tax refund. During the six months ended December 31, 2023, the Company recorded a refund received of \$380 as revenue for a sales tax refund.

**Note 12. – Commitments and Contingencies**

The Company has no contractual obligations, commitments and contingencies related to outstanding debt and interest (excluding operating leases, see Note 10) at December 31, 2024.

**Note 13. – Related Party Transactions**

A former director of the Company, who resigned in July 2024, is senior counsel in a law firm which provides services to SunLink. The Company expensed an aggregate of \$116 and \$102 for legal services to this law firm in the three months ended December 31, 2024 and 2023. The Company expensed an aggregate of \$277 and \$289 for legal services to this law firm in the six months ended December 31, 2024 and 2023. Included in the Company's condensed consolidated balance sheets in accounts payable at December 31, 2024 and June 30, 2024 is outstanding legal expenses to this firm \$116 and \$156, respectively.

**Note 14. – Subsequent Events**

A subsidiary, SHST Technology, an IT business was sold in January 2025 for cash of \$50 and a note receivable of \$100. The note receivable is payable in two installments of \$50 each in March and June 2025. An impairment loss of \$100 was recorded in the three and six months ended December 31, 2024 for the estimated loss on sale of the business. SHST Technology net assets and liabilities (including a \$100 impairment reserve) are shown as current assets held for sale and current liabilities held for sale on the December 31, 2024 condensed consolidated balance sheet.

Details of assets and liabilities held for sale of SHST Technology at December 31, 2024 are as follows:

	December 31, 2024
Receivables - net	\$ 181
Prepaid expenses and other assets	31
Property, plant and equipment, net	144
Impairment reserve	(100)
<b>Total assets held for sale</b>	<b>256</b>
Accounts payable	\$ 28
Accrued payroll and related taxes	78
<b>Total liabilities held for sale</b>	<b>106</b>

On January 6, 2025, the Company and Regional jointly announced that they have entered into a definitive agreement and plan of merger, dated January 3, 2025, pursuant to which the Company will merge with and into Regional. See Note 2. Merger.

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

**Forward-Looking Statements**

This Quarterly Report and the documents that are incorporated by reference in this Quarterly Report contain certain forward-looking statements within the meaning of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995. Forward-looking statements include all statements that do not relate solely to historical or current facts and may be identified by the use of words such as "may," "believe," "will," "seeks to", "expect," "project," "estimate," "anticipate," "plan" or "continue." Throughout this quarterly report and the notes to the condensed consolidated financial statements, SunLink Health Systems, Inc., and its consolidated subsidiaries are referred to on a collective basis as "SunLink", "we", "our", "ours", "us" or the "Company." This drafting style is not meant to indicate that SunLink Health Systems, Inc. or any particular subsidiary of SunLink Health Systems, Inc. owns or operates any asset, business, or property. Healthcare services, pharmacy operations and other businesses described in this filing are owned and operated by distinct and indirect subsidiaries of SunLink Health System, Inc. These forward-looking statements are based on current plans and expectations and are subject to a number of risks, uncertainties and other factors that 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 continuing after-effects of the COVID-19 pandemic, both nationwide and in the states in which we operate, including among other things, on demand for our pharmacy services, the efficiency of such services, availability of staffing, availability of supplies, costs and financial results. Changes in the communicability, mortality rate, and vaccine resistances for COVID-19 and its variants or pandemics of other contagious diseases could result in the unavailability of personnel to provide services, regulatory bans on certain services, increased costs, reduced revenues or other adverse effects on our business;
- the competitive nature of the U.S. pharmacy business;
- demographic characteristics and changes in areas where we operate variants;
- the availability of cash or borrowings to fund working capital, renovations, replacements, expansions, and capital improvements at existing pharmacy facilities and for acquisitions and replacement of such pharmacy facilities or acquisitions of other healthcare facilities;
- changes in accounting principles generally accepted in the U.S.;
- the impact of inflation on our customers, operating costs, ability and feasibility of raising funds, and on our ability to achieve cash flow and profitability, including our inability to cover cost increases because most of our revenue is from government programs whose payments are fixed; and
- fluctuations in the market value of equity securities including SunLink common shares, including fluctuations based on actual or feared inflation or recession.

*Operational Factors*

- the ability or inability to operate profitably in the pharmacy or other healthcare businesses;
- the availability of, and our ability to attract and retain, sufficient qualified management, pharmacists, and staff personnel for our operations;
- timeliness and amount and conditions of reimbursement payments received under government programs;
- the lack of availability of future governmental support that may be required to offset the after effects of future pandemics or an inability to meet the requirements relating to such support;

- the ability or inability to fund our obligations under capital leases or new or existing obligations and/or any potential defaults under future indebtedness;
- restrictions imposed by existing or future contractual obligations including any new indebtedness;
- the cost and availability of insurance coverage including professional liability (e.g., medical malpractice) and general, employment, fiduciary, other liability insurance and changes in estimates of our self-insurance claims and reserves;
- the efforts of governmental authorities, insurers, healthcare providers, and others to contain and reduce healthcare costs;
- changes in medical and other technology;
- increases in prices of materials and services utilized in our pharmacy business;
- increases in wages as a result of inflation or competition for pharmacy, management, and staff positions;
- any impairment in our ability to collect accounts receivable, including deductibles and co-pay amounts;
- the functionality of or costs with respect to our information systems for our pharmacy business and our corporate office, including both software and hardware;
- the availability of and competition from alternative drugs or treatments to those provided by our pharmacy business; and
- the restrictions, clawbacks, processes, and conditions relating to our pharmacy business imposed by pharmacy benefit managers, drug manufacturers, and distributors.

*Liabilities, Claims, Obligations and Other Matters*

- claims under leases, guarantees, disposition agreements, and other obligations relating to previous and future asset sales or discontinued operations, including claims from sold or leased facilities and services, retained liabilities or retained subsidiaries, and failure of buyers to satisfy liabilities for which the Company remains liable, pursuant to the disposition agreements;
- potential adverse consequences of any known and unknown government investigations;
- claims for medical malpractice product, environmental or other liabilities from continuing and discontinued operations;
- professional, general, and other claims which may be asserted against us, including claims currently unknown to us;
- potential damages and consequences of natural disasters and weather-related events such as tornados, earthquakes, hurricanes, flooding, snow, ice and wind damage, and population evacuations affecting areas in which we operate; and
- potential adverse contingencies of terrorist acts, crime or civil unrest.

*Regulation and Governmental Activity*

- negative consequences of existing and proposed governmental budgetary constraints or modification or termination of existing government programs or the implementation and related costs and disruptions of new government programs such as environmental, social and governance programs;
- negative consequences of Federal and state insurance exchanges and their rules relating to reimbursement terms;
- the regulatory environment for our businesses, including pharmacy licensing laws and regulations and rules and judicial cases relating thereto;
- the failure of government and private reimbursement to cover our increasing costs;

- changes in or failure to comply with Federal, state and local laws and regulations and enforcement interpretations of such laws and regulations affecting our pharmacy business; and
- the possible enactment of additional Federal healthcare reform laws or reform laws or regulations in states where our subsidiaries operate pharmacy facilities or additional healthcare facilities (including Medicaid waivers, bundled payments, managed care programs, accountable care and similar organizations, competitive bidding and other reforms).

**Strategic Initiatives - Merger, Dispositions, Acquisition and Renovation Related Matters**

- the inability to complete a strategic transaction such as a merger;
- the inability to dispose of underperforming businesses on acceptable terms;
- the inability to complete the sale of assets pursuant to disposition agreements or the inability to collect proceeds expected pursuant to such agreements;
- the availability of cash and the availability and terms of borrowed or equity capital to fund acquisitions or replacement or upgraded facilities, and improvements or renovations to existing facilities; and
- competition in the market for acquisitions of pharmacy facilities, and other 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 our annual report and quarterly reports completely and with the understanding that 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 annual and quarterly reports 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, except as required by applicable law. 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, on which the forward-looking statement is based, except as required by applicable law. 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.

**Business Strategy - Merger, Operations, Dispositions and Acquisitions**

On January 6, 2025, the Company and Regional Health Properties, Inc. ("Regional") jointly announced that they have entered into a definitive agreement and plan of merger (the "merger agreement"), dated January 3, 2025 pursuant to which the Company to merge with and into Regional (the "merger") in exchange for the issuance of an aggregate of 1,410,000 shares of Regional common stock and 1,410,000 shares of Regional's newly-authorized Series D 8% Cumulative Convertible Redeemable Preferred Stock with a liquidation preference of \$10 per share. The merger has been approved unanimously by each company's board of directors and completion of the transaction is subject to the receipt of the approvals of the shareholders of both Regional and the Company, regulatory approvals and satisfaction of customary closing conditions. If this merger is concluded after shareholder approved, then Regional will be the surviving entity and the Company will no longer exist.

**Sale of Trace Regional Hospital, medical office building, three patient clinics, and Trace Extended Care operations** – On January 22, 2024, the Company's indirect subsidiary, Southern Health Corporation of Houston, Inc.

("Southern"), reached revised agreements (the "Revised Agreements") for the sale of Trace Regional Hospital, a vacant medical office building and three (3) patient clinics in Chickasaw County, MS, (collectively "Trace") to Progressive Health of Houston, LLC ("Progressive") pursuant to which (i) Southern sold certain personal and intangible property to Progressive for \$500 under to an asset purchase agreement ("Trace Hospital Assets Sale"), (ii) entered into a six-month net lease of the real property of the hospital, medical office building and the clinics real property (the "Trace Real Estate") for \$20 per month, (iii) entered into a contract to sell the Trace real estate to Progressive (the "Trace Real Estate Sale") for \$2,000 and (iv) engaged Progressive under a management agreement to manage the operations of Trace pending receipt of certain regulatory approvals, which were received February 29, 2024. The Company recorded a loss of \$962 on the Trace Hospital Assets Sale during the year ended June 30, 2024, which included sale expenses of \$174. The Trace Real Estate Sale was completed on October 9, 2024. The Company received net proceeds of \$1,832 at closing. The Company reported a loss of \$110 in the quarter ended December 31, 2024 related to additional sale expenses. The Company had earlier reported an additional asset impairment reserve of \$44 in the quarter ended September 30, 2024 for transaction expenses incurred at the sale date. SunLink earlier reported an impairment loss of \$1,974 at December 31, 2023 to reduce the net value of the Trace hospital assets to the estimated sale proceeds under the revised agreement. On June 3, 2024, the Company's indirect subsidiary, Southern Health Corporation of Houston, Inc. and an affiliate completed the sale of its Trace Extended Care & Rehab senior care facility ("Trace Extended Care") and related real estate in Houston, Mississippi for approximately \$7,100 (the "Trace Extended Care Facility Sale"). The net proceeds of approximately \$6,522 have been retained for working capital and general corporate purposes. The Company recorded a gain of \$5,584 during the fiscal year ended June 30, 2024 on the Trace Extended Care Facility Sale, which included sale expenses of \$578.

#### **Critical Accounting Estimates**

The preparation of financial statements in accordance with U.S. GAAP 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 results of operations or financial condition.

Our critical accounting estimates are more fully described in our 2024 Annual Report on Form 10-K and continue to include the following areas: receivables – net and provision for doubtful accounts; revenue recognition and net patient service revenues; goodwill, intangible assets and accounting for business combinations; professional and general liability claims; and accounting for income taxes. There have been no material changes in our critical accounting estimates for the periods presented other than amounts readily computable from the financial statements included in this form 10-Q.

#### **Financial Summary**

##### **Results of Operations**

The Company's operations for the three and six months ended December 31, 2024 continued to be negatively impacted by the effects of the aftermath of the COVID-19 pandemic, although mitigated somewhat from prior quarters.

including among other factors, difficulty hiring qualified employees, rising labor and supply costs and supply chain challenges resulting in inability to obtain pharmacy and DME products on a timely, cost effective basis.

	Three Months Ended December 31,			Six Months Ended December 31,		
	2024	2023	% Change	2024	2023	% Change
Net Revenues	\$ 7,935	\$ 8,510	(6.8)%	\$ 15,858	\$ 17,065	(7.1)%
Costs and expenses	(8,947)	(8,943)	0.0%	(18,064)	(17,948)	0.6%
Operating loss	(1,012)	(433)	133.7%	(2,206)	(883)	149.8%
Interest income (expense) - net	42	29	44.8%	100	51	96.1%
Impairment loss	(100)	0	NA	(100)	0	NA
Gain on sale of assets	0	0	NA	694	2	NA
Loss from continuing operations before income taxes	\$ (1,070)	\$ (404)	164.9%	\$ (1,512)	\$ (830)	82.2%

Our net revenues are from two businesses, pharmacy and a subsidiary which provides information technology services to outside customers and SunLink subsidiaries. The Company's revenues by payor were as follows for the three and six months ended December 31, 2024 and 2023:

	Three Months Ended December 31,			Six Months Ended December 31,		
	2024	2023		2024	2023	
Medicare	\$ 3,589	\$ 3,984		\$ 7,308	\$ 7,814	
Medicaid	1,672	1,742		3,398	3,392	
Retail and Institutional Pharmacy	1,854	1,618		3,650	3,322	
Private Insurance	587	987		1,054	2,157	
Self-pay	211	163		408	343	
Other	22	16		40	37	
<b>Total Net Revenues</b>	<b>\$ 7,935</b>	<b>\$ 8,510</b>		<b>\$ 15,858</b>	<b>\$ 17,065</b>	

Pharmacy net revenues for the three month period ended December 31, 2024 decreased \$623 or 7% from the three month period ended December 31, 2023 and for the six month period ended December 31, 2024 decreased \$1,273 or 8% from the six month period ended December 31, 2023. The revenues for the three months ended December 31, 2023 include \$58 of prior period sales tax refunds and for the six months ended December 31, 2024 include \$380 of prior period sales tax refunds. The decrease in pharmacy net revenues for the three and six months periods ended December 31, 2024 compared to the same period last fiscal year resulted from lower retail pharmacy scripts filled and lower durable medical equipment ("DME") orders shipped. Institutional pharmacy scripts filled increased 5% in the

three months ended December 31, 204 compared to the three months ended December 31, 2023 and increased 7% in the six months ended December 31, 2024 compared to the six months ended December 31, 2023.

Costs and expenses, including depreciation and amortization, were \$8,947 and \$8,943 for the three months ended December 31, 2024 and 2023, respectively. Costs and expenses, including depreciation and amortization, were \$18,064 and \$17,948 for the six months ended December 31, 2024 and 2023, respectively.

	Cost and Expenses as a % of Net Revenues		Six Months Ended December 31,	
	2024	2023	2024	2023
Cost of goods sold	58.2%	56.0%	57.3%	55.9%
Salaries, wages and benefits	34.2%	31.4%	36.5%	31.0%
Supplies	0.5%	0.5%	0.5%	0.4%
Purchased services	4.1%	3.3%	4.1%	3.3%
Other operating expenses	10.5%	9.2%	10.3%	9.9%
Rent and lease expense	1.2%	1.1%	1.2%	1.1%
Depreciation and amortization expense	4.1%	3.7%	4.0%	3.6%

Almost all categories of costs and expenses increased as a percent of net revenues in the three and six month periods ended December 31, 2024 compared to the prior fiscal year due to the decreased net revenues this year. Cost of goods sold dollars decreased 3% and 5% in total for the three and six months ended December 31, 2024 compared to the prior fiscal year period due to the reduced volume. Salaries, wages and benefits ("SWB") increased in total for the three and six months ended December 31, 2024 compared to the prior period last year due to higher salaries and wages required in connection with current labor markets and operating challenges of labor allocation relating to the pandemic after-effects, including the use of contract labor and higher employee benefit costs. Other operating costs include legal expenses, which has increased this fiscal year for the cost of the potential Regional merger. Depreciation expense also increased this year due to the \$1,467 of capital expenditures last fiscal year.

#### Operating Loss

The Company reported an operating loss of \$1,012 for the three months period ended December 31, 2024 compared to an operating loss of \$433 for the three months period ended December 31, 2023, and an operating loss of \$2,206 for the six months ended December 31, 2024 compared to an operating loss of \$883 for the six months ended December 31, 2024. The increased operating loss for the three and six months periods ended December 31, 2024 compared to the three and six months periods ended December 31, 2023 resulted from the decreased in net revenues this fiscal year and increased costs as a percentage of net revenues.

#### Impairment Loss

The Company sold its IT subsidiary in January 2025 for \$150. An impairment loss of \$100 was recorded at December 31, 2024 to write down the net assets being sold to the sale price.

#### Gain on Sale of Assets

On August 2, 2024, the Company sold all its minority equity ownership investment in a subsidiary to the majority owner for cash of \$1,064 which resulted in a pre-tax gain on the sale of \$665 for the six month period ended December 31, 2024. On September 6, 2024, the Company sold 24.7 acres of undeveloped land for cash of \$401 which resulted in a pre-tax gain on the sale of \$29 for the six months period ended December 31, 2024.

#### Income Taxes

No income tax expense was recorded for continuing operations for the three and six months ended December 31, 2024. Income tax expense of \$3 (all state income taxes) was recorded for continuing operations for the three

months ended December 31, 2023 and income tax expense of \$5 (all state income taxes) was recorded for continuing operations six months ended December 31, 2023.

In accordance with the Financial Accounting Standards Board Accounting Standards Codification ("ASC") 740, we evaluate our deferred taxes quarterly to determine if adjustments to our valuation allowance are required based on the consideration of available positive and negative evidence using a "more likely than not" standard with respect to whether deferred tax assets will be realized. Our evaluation considers, among other factors, our historical operating results, our expectation of future results of operations, the duration of applicable statutory carryforward periods and conditions of the healthcare industry. The ultimate realization of our deferred tax assets depends primarily on our ability to generate future taxable income during the periods in which the related temporary differences in the financial basis and the tax basis of the assets become deductible. The value of our deferred tax assets will depend on applicable income tax rates.

At December 31, 2024, consistent with the above process, we evaluated the need for a valuation allowance against our deferred tax assets and determined that it was more likely than not that none of our deferred tax assets would be realized. As a result, in accordance with ASC 740, we recognized a valuation allowance of \$8,517 against the deferred tax asset so that there is no net long-term deferred income tax asset at December 31, 2024. We conducted our evaluation by considering available positive and negative evidence to determine our ability to realize our deferred tax assets. In our evaluation, we gave more significant weight to evidence that was objective in nature as compared to subjective evidence. A long-term deferred tax liability of \$69 is recorded within other noncurrent liabilities in the accompanying condensed consolidated balance sheet of December 31, 2024 to reflect the deferred tax liability for the non-amortizing trade name intangible asset.

The principal negative evidence that led us to determine at December 31, 2024 that all the deferred tax assets should have full valuation allowances was historical tax losses and the projected current fiscal year tax loss. For purposes of evaluating our valuations allowances, the Company's history of losses represent significant historical negative evidence and we have recognized none of our federal income tax net operating loss carry-forward of approximately \$29,169.

For federal income tax purposes, at December 31, 2024, the Company had approximately \$29,169 of estimated net operating loss carry-forwards available for use in future years subject to the possible limitations of the provisions of Internal Revenue Code Section 382. These net operating loss carryforwards expire primarily in fiscal year 2025 through fiscal year 2038; however, with the enactment of the Tax Cut and Jobs Act on December 22, 2017, federal net operating loss carryforwards generated in taxable years beginning after December 31, 2017 now have no expiration date. The Company's returns for the periods prior to the fiscal year ended June 30, 2020 are no longer subject to potential federal and state income tax examination. Net operating loss carry-forwards generated in tax years prior to June 30, 2020 are still subject to redetermination in potential federal income tax examination.

#### *Loss from Continuing Operations after Income Taxes*

The loss from continuing operations after income taxes was \$1,070 for the three month period ended December 31, 2024 compared to a loss from continuing operations after income taxes of \$407 for the three month period ended December 31, 2023. The increased loss in the current quarter resulted from lower net revenues and cost from the potential merger with Regional. The loss from continuing operations after income taxes was \$1,512 for the six month period ended December 31, 2024 compared to a loss from continuing operations after income taxes of \$835 for the six month period ended December 31, 2023. The increased loss in the current quarter resulted from lower net revenues.

#### *Loss from Discontinued Operations after Income Taxes*

The loss from discontinued operations after income taxes was \$273 for the three month period ended December 31, 2024 compared to a loss from discontinued operations after income taxes of \$2,668 for the three month period ended December 31, 2023. The loss this year results from transaction costs for the sale of the Trace Real Estate which was closed on October 9, 2024 and a prior year negative cost report settlement for a hospital that the Company closed in a prior year. The loss from discontinued operations after income taxes was \$380 for the six month ended December 31, 2024 compared to a loss from discontinued operations after income taxes of \$3,584 for the six month period ended December 31, 2023. The loss for the three and six months periods ended December 31, 2023 results from primarily from a \$2,032 impairment loss on the net assets of the Trace hospital, which were classified as held for sale as of December 31, 2023 and the loss incurred by the operations of the Trace hospital and nursing home.

*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.

**Sale of Trace Regional Hospital, medical office building, three patient clinics, and Trace Extended Care operations** – On January 22, 2024, the Company's indirect subsidiary, Southern Health Corporation of Houston, Inc. ("Southern"), reached revised agreements (the "Revised Agreements") for the sale of Trace Regional Hospital, a vacant medical office building and three (3) patient clinics in Chickasaw County, MS, (collectively "Trace") to Progressive Health of Houston, LLC ("Progressive") pursuant to which (i) Southern sold certain personal and intangible property to Progressive for \$500 under to an asset purchase agreement ("Trace Hospital Assets Sale"), (ii) entered into a six-month net lease of the real property of the hospital, medical office building and the clinics real property (the "Trace Real Estate") for \$20 per month, (iii) entered into a contract to sell the Trace real estate to Progressive (the "Trace Real Estate Sale") for \$2,000 and (iv) engaged Progressive under a management agreement to manage the operations of Trace pending receipt of certain regulatory approvals, which were received February 29, 2024. The Company recorded a loss of \$962 on the Trace Hospital Assets Sale during the year ended June 30, 2024, which included sale expenses of \$174. The Trace Real Estate Sale was completed on October 9, 2024. The Company received net proceeds of \$1,832 at closing. The Company reported a loss of \$110 in the quarter ended December 31, 2024 for additional sale expenses. The Company had earlier reported an additional asset impairment reserve of \$44 in the quarter ended September 30, 2024 for transaction expenses incurred at the sale date. SunLink earlier reported an impairment loss of \$1,974 at December 31, 2023 to reduce the net value of the Trace hospital assets to the estimated sale proceeds under the revised agreement. On June 3, 2024, the Company's indirect subsidiary, Southern Health Corporation of Houston, Inc. and an affiliate completed the sale of its Trace Extended Care & Rehab senior care facility ("Trace Extended Care") and related real estate in Houston, Mississippi for approximately \$7,100 (the "Trace Extended Care Facility Sale"). The net proceeds of approximately \$6,522 have been retained for working capital and general corporate purposes. The Company recorded a gain of \$5,584 during the fiscal year ended June 30, 2024 on the Trace Extended Care Facility Sale, which included sale expenses of \$578.

**Sold Facilities**– Subsidiaries of the Company have sold substantially all the assets of five (5) other hospitals ("Sold Facilities") during the period July 2, 2012 to March 17, 2019. The loss before income taxes of the Sold Facilities results primarily from the effects of retained professional liability insurance and claims expenses, a prior year negative cost report settlement for a closed hospital and settlement of a lawsuit.

**Life Sciences and Engineering Segment** — SunLink retained a defined benefit retirement plan which covered substantially all the employees of this segment when the segment was sold in fiscal year 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 discontinued operations for this segment for the three and six months ended December 31, 2024 and 2023, respectively.

*Net Loss*

Net loss for the three months period ended December 31, 2024 was \$1,343 (or a loss of \$0.19 per fully diluted share) as compared to a net loss of \$3,075 (or a loss of \$0.44 per fully diluted share) for the three months period ended December 31, 2023. Net loss for the six months period ended December 31, 2024 was \$1,892 (or a loss of \$0.27 per fully diluted share) as compared to a net loss of \$4,419 (or a loss of \$0.63 per fully diluted share) for the six months period ended December 31, 2023.

## Liquidity and Capital Resources

### Overview

The Company and its subsidiaries' primary source of liquidity for working capital and operational needs, and for general corporate purposes, is unrestricted cash on hand, which was \$8,020 at December 31, 2024. From time-to-time, we may, nevertheless, seek to obtain financing for the liquidity needs of the Company or individual subsidiaries.

Subject to the effects, risks and uncertainties associated with the aftermath of the COVID-19 pandemic, we believe, as discussed further below, that we have adequate liquidity to support our current level of operations through the next twelve months.

### Contractual Obligations, Commitments and Contingencies

Contractual obligations, commitments and contingencies related to noncancelable operating leases from continuing operations at December 31, 2024 were as follows:

Payments due within:	Operating Leases
1 year	\$ 320
2 years	62
3 years	18
4 years	1
5 years	0
Over 5 years	0
	\$ 401

As of December 31, 2024, we had no outstanding debt.

On January 6, 2025, the Company and Regional Health Properties, Inc. ("Regional") jointly announced that they have entered into a definitive agreement and plan of merger (the "merger agreement"), dated January 3, 2025, pursuant to which the Company will merge with and into Regional (the "merger") in exchange for the issuance of an aggregate of 1,410,000 shares of Regional common stock and 1,410,000 shares of Regional's newly-authorized Series D 8% Cumulative Convertible Redeemable Preferred Stock with a liquidation preference of \$10 per share. The merger has been approved unanimously by each company's board of directors and completion of the transaction is subject to the receipt of the approvals of the shareholders of both Regional and the Company regulatory approvals and satisfaction of customary closing conditions. If this merger is concluded after shareholder approved, then Regional will be the surviving entity and the Company will no longer exist.

The Company currently expects its pharmacy business to purchase approximately \$800 of capitalizable DME by the pharmacy operations (to be rented to customers) during the next twelve months. The timing and actual amount which will be expended is difficult to predict due to various factors including varying demand for such equipment as well as its availability given current supply sourcing challenges. The pharmacy business also has a \$50 capital commitment for the upgrade of its drug compounding facility. Other capital expenditures for replacement and upgrade of current facilities and equipment of the pharmacy business may be needed during the next twelve months although there is no estimate of those expenditures other than being expected to be at a lower level than fiscal years 2024 and 2023. The Company anticipates funding such expenditures primarily from cash on hand. Other cash expenditures for the next twelve months currently are expected to be in-line with expenditures for the fiscal year ended June 30, 2024, subject to further operating and administrative cost increases, and other settlements of cost reports and other liabilities in the ordinary course of business as well as cash receipts and disbursements relating to possible asset sales. Other than reported above, there have been no material changes outside the ordinary course of business relating to our upcoming cash obligations which have occurred during the six months ended December 31, 2024. Other than with respect to scheduled cash expenditures (based on current operating levels) for operating leases, and the specific items previously disclosed here, as well as continued uncertainties relating to the aftereffects of the COVID-19 pandemic and asset sales, the Company is currently unaware of other trends or unusual uncertainties that are likely to cause a material change in its cash expenditures in periods beyond the next twelve months. See Note 10, to our condensed consolidated financial statements. The Company is also unaware of events that are reasonably likely to cause a material change in the relationship between its costs and revenues (such as known or reasonably likely future increases in costs of labor or materials, price increases or inventory adjustments, beyond those discussed herein); however, we are unable to predict

with any degree of accuracy when, or the extent to which, recent inflationary price trends, labor disruptions and supply chain challenges experienced in 2023 and 2024 to date will mitigate or accelerate.

#### **Related Party Transactions**

A former director of the Company, who resigned in July 2024, is senior counsel in a law firm which provides services to SunLink. The Company expensed an aggregate of \$116 and \$102 for legal services to this law firm in the three months ended December 31, 2024 and 2023. The Company expensed an aggregate of \$277 and \$289 for legal services to this law firm in the six months ended December 31, 2024 and 2023. Included in the Company's condensed consolidated balance sheets in accounts payable at December 31, 2024 and June 30, 2024 is outstanding legal expenses to this firm \$116 and \$156, respectively.

#### **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

We have not entered into any transactions using derivative financial instruments or derivative commodity instruments and believe that our exposure to market risk associated with other financial instruments (such as investments and borrowings) and interest rate risk is not material.

#### **ITEM 4. CONTROLS AND PROCEDURES**

##### **Evaluation of Disclosure Controls and Procedures**

As required by Rule 13a-15 and Rule 15d-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act"), as of the end of the period covered by this report, we carried out an evaluation of the effectiveness of the design and operation of our Company's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) and the changes in our disclosure controls and procedures during the quarter. Under the direction of our chief executive officer and chief financial officer, we evaluated our disclosure controls and procedures and internal control over financial reporting and concluded that our disclosure controls and procedures were effective as of December 31, 2024.

Disclosure controls and procedures and other procedures are designed to ensure that information required to be disclosed in our reports or submitted under the Exchange Act, such as this Quarterly Report on Form 10-Q, is recorded, processed, summarized and reported within the time period specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in our reports filed under the Exchange Act is accumulated and communicated to management, including our principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure.

Based on an evaluation of the effectiveness of disclosure controls and procedures performed in connection with the preparation of this Form 10-Q, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures were effective as of December 31, 2024.

##### **Changes in Internal Control Over Financial Reporting**

There were no changes during the quarter ended December 31, 2024 in our internal control over financial reporting that materially affected, or is believed likely to materially affect, our internal controls over financial reporting.

**PART II. OTHER INFORMATION**

Items required under Part II not specifically shown below are not applicable.

**ITEM 1. LEGAL PROCEEDINGS**

The Company and its subsidiaries are subject to various claims and litigation that arise from time to time in the ordinary course of business, including, among other things, tax, contract, workers compensation and medical malpractice claims and other claims and litigation. Medical malpractice and certain other claims are generally covered by malpractice, general liability or other insurance but are subject to provisions under which the Company retains a portion of the risk, which retention, particularly in the case of claims of medical malpractice, can be material. Based on current knowledge, the Company's management does not believe that any current pending legal proceedings will have a material adverse effect on the Company's consolidated financial position or its liquidity. However, in light of the uncertainties involved and indeterminate damages sought in some such legal proceedings, an adverse outcome could be material to our results of operations or cash flows in any reporting period.

**ITEM 1A. RISK FACTORS****Risk Factors Relating to an Investment in SunLink**

Information regarding risk factors appears in "MD&A – Forward-Looking Statements," in Part I – Item 2 of this Form 10-Q and in "MD&A - Risks Factors Relating to an Investment in SunLink" in Part I – Item 1A of the Company's Annual Report on Form 10-K for the year ended June 30, 2024. We believe there have been no material changes from the risk factors previously disclosed in such Annual Report except as set forth herein.

In addition to the matters set forth herein, the reader should carefully consider, in addition to the other information set forth in this report, the risk factors discussed in our Annual Report that could materially affect our business, financial condition or future results. Such risk factors are expressly incorporated herein by reference. The risks described in our Annual Report are not the only risks facing our Company. In addition to risks and uncertainties inherent in forward-looking statements contained in this Report on Form 10-Q, additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results. Whenever we refer to "SunLink," "Company", "we," "our," or "us" in this Item 1A, we mean SunLink Health Systems, Inc. and its subsidiaries, unless the context suggests otherwise.

**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

None

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None

**ITEM 4. MINE SAFETY DISCLOSURES**

Not Applicable

**ITEM 5. OTHER INFORMATION**

During the quarter ended December 31, 2024, there were no material changes to the procedures by which SunLink's security holders may recommend nominees to SunLink's board of directors.

During the quarter ended December 31, 2024, none of the Company's directors or officers (as defined in Rule 16a-1(f) of the Exchange Act) informed us of the adoption, modification, or termination of a "Rule 10b5-1 trading arrangement" or "non-Rule 10b5-1 trading arrangement," as those terms are defined in Regulation S-K, Item 408(c).

#### ITEM 6. EXHIBITS

##### Exhibits:

3.3 [Articles of Incorporation of SunLink Health Systems, Inc. \(incorporated by reference to: \(i\) Exhibit A to Annex A of the Company's Proxy Statement on Schedule 14A filed with the Securities and Exchange Commission on September 27, 2023\)](#)

3.4 [Bylaws of SunLink Health Systems, Inc. \(incorporated by reference to Exhibit B to Annex A of the Company's Proxy Statement filed on Schedule 14A with the Securities and Exchange Commission on September 27, 2023\)](#)

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.](#)

101 The following materials from the Company's Quarterly Report on Form 10-Q for the three and six months ended December 31, 2024, formatted in iXBRL (eXtensible Business Reporting Language): (i) Condensed Consolidated Balance Sheets as of December 31, 2024 (unaudited) and June 30, 2024, (ii) Condensed Consolidated Statements of Operations and Comprehensive Earnings (Loss) for the three and six months ended December 31, 2024 and 2023 (unaudited), (iii) Condensed Consolidated Statements of Cash Flows for the three and six months ended December 31, 2024 and 2023 (unaudited), and (iv) Notes to Condensed Consolidated Financial Statements (unaudited), tagged as blocks of text.

104 Cover Page Interactive Data File (formatted as Inline XBRL with the applicable taxonomy extension information in Exhibit 101.)

**SIGNATURES**

Pursuant to the requirements 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.

SunLink Health Systems, Inc.

By: /s/ Mark J. Stockslager  
Mark J. Stockslager  
Chief Financial Officer

Dated: February 12, 2025

## CERTIFICATION

I, Robert M. Thornton, Jr., the Chief Executive Officer of SunLink Health Systems, Inc. (the "registrant"), certify that:

- (1) I have reviewed this quarterly report on Form 10-Q of the registrant for the period ended December 31, 2024 (the "report");
- (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, and is 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 registrant as of, and for, the periods presented in this report;
- (4) The registrant's other certifying officer 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant 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 registrant, 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of December 31, 2024 (the "Evaluation Date"), based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
- (5) The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant'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 registrant'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 registrant's internal control over financial reporting.

February 12, 2025

/s/ Robert M. Thornton, Jr.  
 Robert M. Thornton, Jr.  
 SunLink Health Systems, Inc.  
 Chief Executive Officer

## CERTIFICATION

I, Mark J. Stockslager, the Chief Financial Officer of SunLink Health Systems, Inc. (the "registrant"), certify that:

- (1) I have reviewed this quarterly report on Form 10-Q of the registrant for the period ended December 31, 2024 (the "report");
- (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, and is 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 registrant as of, and for, the periods presented in this report;
- (4) The registrant's other certifying officer 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant 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 registrant, 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of December 31, 2024 (the "Evaluation Date"), based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
- (5) The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant'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 registrant'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 registrant's internal control over financial reporting.

February 12, 2025

/s/ Mark J. Stockslager  
 Mark J. Stockslager  
 SunLink Health Systems, Inc.  
 Chief Financial Officer

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 quarterly report of SunLink Health Systems, Inc. (the "Company") on Form 10-Q for the quarterly period ended December 31, 2024, 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 to my knowledge:

- (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.

February 12, 2025

/s/ Robert M. Thornton, Jr.  
Robert M. Thornton, Jr.  
SunLink Health Systems, Inc.  
Chief Executive Officer

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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 quarterly report of SunLink Health Systems, Inc. (the "Company") on Form 10-Q for the quarterly period ended December 31, 2024 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 to my knowledge:

- (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.

February 12, 2025

*/s/* Mark J. Stockslager  
Mark J. Stockslager  
SunLink Health Systems, Inc.  
Chief Financial Officer

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