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, 2023

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	**31-0621189**
(State or other jurisdiction of incorporation or organization)	**(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	**Trading Symbol(s)**	**Name of each exchange on which registered Symbol(s)**
Common Shares without par value Preferred Share Purchase Rights	SSY	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 (of 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 12, 2024 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, 2023 (unaudited)	June 30, 2023
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 2,055	$ 4,486
Receivables - net	3,061	2,592
Inventory	1,593	1,628
Current assets held for sale	5,328	1,920
Prepaid expense and other assets	1,673	1,648
Total current assets	13,710	12,274
Property, plant and equipment, at cost	12,050	11,259
Less accumulated depreciation	(9,129)	(8,542)
Property, plant and equipment - net	2,921	2,717
Noncurrent Assets:		
Intangible asset	1,180	1,180
Noncurrent assets held for sale	0	5,812
Right of use assets	649	798
Other noncurrent assets	327	487
Total noncurrent assets	2,156	8,277
TOTAL ASSETS	$ 18,787	$ 23,268
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$ 1,420	$ 1,067
Accrued payroll and related taxes	924	1,027
Current liabilities held for sale	1,839	1,326
Current operating lease liabilities	331	334
Other accrued expenses	714	1,115
Total current liabilities	5,228	4,869
Long-Term Liabilities		
Noncurrent liability for professional liability risks	105	138
Long-term operating lease liabilities	332	481
Noncurrent liabilities held for sale	0	192
Other noncurrent liabilities	118	171
Total long-term liabilities	555	982
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, 2023 and 7,032 at June 30, 2023	3,521	3,516
Additional paid-in capital	10,747	10,746
Retained earnings (deficit)	(1,414)	3,005
Accumulated other comprehensive income	150	150
Total Shareholders' Equity	13,004	17,417
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 18,787	$ 23,268

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,	
	2023	2022	2023	2022
Net revenues	$ 8,510	$ 10,640	$ 17,065	$ 18,089
Costs and Expenses:				
Cost of goods sold	4,761	4,518	9,532	8,887
Salaries, wages and benefits	2,668	2,481	5,285	5,004
Supplies	39	35	73	65
Purchased services	281	236	567	486
Other operating expenses	784	720	1,690	1,253
Rent and lease expense	92	92	183	184
Depreciation and amortization	318	288	618	557
Operating Profit (Loss)	(433)	2,270	(883)	1,653
Other Income (Expense):				
Gains on sale of assets	0	1	2	13
Interest income (expense), net	29	5	51	5
Earnings (Loss) from Continuing Operations before income taxes	(404)	2,276	(830)	1,671
Income Tax Expense (Benefit)	3	(1)	5	(1)
Earnings (Loss) from Continuing Operations	(407)	2,277	(835)	1,672
Loss from Discontinued Operations, net of tax	(2,668)	(326)	(3,584)	(1,279)
Net Earnings (Loss)	(3,075)	1,951	(4,419)	393
Other comprehensive income	0	0	0	0
Comprehensive Earnings (Loss)	$ (3,075)	$ 1,951	$ (4,419)	$ 393
Earnings (Loss) Per Share:				
Continuing Operations:				
Basic	$ (0.06)	$ 0.32	$ (0.12)	$ 0.24
Diluted	$ (0.06)	$ 0.32	$ (0.12)	$ 0.24
Discontinued Operations:				
Basic	$ (0.38)	$ (0.05)	$ (0.51)	$ (0.18)
Diluted	$ (0.38)	$ (0.05)	$ (0.51)	$ (0.18)
Net Earnings (Loss):				
Basic	$ (0.44)	$ 0.28	$ (0.63)	$ 0.06
Diluted	$ (0.44)	$ 0.28	$ (0.63)	$ 0.06
Weighted-Average Common Shares Outstanding:				
Basic	7,040	7,031	7,039	7,007
Diluted	7,040	7,033	7,039	7,010

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 (Loss)		Accumulated Other Comprehensive Income (Loss)		Total Shareholders' Equity
JUNE 30, 2023	7,032	$	3,516	$	10,746	$	3,005	$	150	$	17,417
Share options exercised	9		5		1		0		0		6
Net loss	0		0		0		(1,344)		0		(1,344)
SEPTEMBER 30, 2023	7,041		3,521		10,747		1,661		150		16,079
Net loss	0		0		0		(3,075)		0		(3,075)
DECEMBER 31, 2023	7,041	$	3,521	$	10,747	$	(1,414)		150	$	13,004
JUNE 30, 2022	6,954	$	3,478	$	10,736	$	4,800	$	106	$	19,120
Share options exercised	78		38		10		0		0		48
Net loss	0		0		0		(1,558)		0		(1,558)
SEPTEMBER 30, 2022	7,032		3,516		10,746		3,242		106		17,610
Net earnings	0		0		0		1,951		0		1,951
DECEMBER 31, 2022	7,032	$	3,516	$	10,746	$	5,193	$	106	$	19,561

See notes to condensed consolidated financial statements.

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

	Six Months Ended December 31, 2023	Six Months Ended December 31, 2022
Net Cash Used in Operating Activities	$ (1,530)	$ (724)
Cash Flows Provided by (Used in) Investing Activities:		
Expenditures for property, plant and equipment - continuing operations	(824)	(833)
Expenditures for property, plant and equipment - discontinued operations	(74)	(318)
Proceeds from sale of property, plant and equipment - continuing operations	5	213
Net Cash Used in Investing Activities	(893)	(938)
Cash Flows Provided by (Used in) Financing Activities:		
Proceeds from share options exercises	6	48
Payments on long-term debt - discontinued operations	(14)	(24)
Net Cash Provided by (Used in) Financing Activities	(8)	24
Net Decrease in Cash and Cash Equivalents	(2,431)	(1,638)
Cash and Cash Equivalents Beginning of Period	4,486	6,794
Cash and Cash Equivalents End of Period	$ 2,055	$ 5,156
Supplemental Disclosure of Cash Flow Information:		
Cash Paid (Received) for:		
Interest	$ (51)	$ (6)
Income taxes	$ 105	$ (32)
Non-cash investing and financing activities:		
Right-of-use assets obtained in exchange for operating lease liabilities	$ 18	$ 24

See notes to condensed consolidated financial statements.

SUNLINK HEALTH SYSTEMS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
THREE MONTHS ENDED SEPTEMBER 30, 2023
(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, 2023 and for the three and six month periods ended December 31, 2023 and 2022 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, 2023 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, 2023, filed with the SEC on September 28, 2023. 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, 2023 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. – Business Operations

The Company's continuing operations are composed of a pharmacy business and an information technology ("IT") business.

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.

A subsidiary, SunLink Health Systems Technology ("SHST Technology"), provides information technology ("IT") services to outside customers and to SunLink subsidiaries. The Company also owns a subsidiary which owns approximately twenty-five (25) acres of unimproved land in Ellijay, Georgia.

Series C Redeemable Preferred Shares

On August 2, 2023, the Board of SunLink declared a non-cash dividend per Common Share of one fractional interest in one of the Corporation's Series C Redeemable Preferred Shares (the "Series C Preferred Shares" and each such fraction of a Series C Preferred Share, a "Series C Fractional Interest"). Each of the 7,032 Series C Preferred Shares issued was entitled to one million (1,000,000) votes and each Series C Fractional Interest in a Series C Preferred Share was entitled to one thousand (1,000) votes out of such one million votes. Series C Fractional Interests could not be transferred separately from the Common Shares and were represented by the Common Shares. Each Common Share was entitled to one (1) vote as a Common Share and also one thousand (1,000) votes for the corresponding Series C Fractional Interest thereon, on each matter properly brought before a special shareholders' meeting which was held on October 19, 2023 and at which the Corporation was reincorporated from the state of Ohio to Georgia (the "Special Meeting"). A further description of the Series C Preferred Shares and the Series C Fractional Interests and the terms and provisions thereof is set forth in the Company's Current Report on Form 8-K filed with the SEC on August 11, 2023.

COVID-19 Pandemic and CARES Act Funding

The Company continued to experience adverse after-effects of the COVID-19 pandemic in the quarter ended December 31, 2023 and believes such effects will likely continue to affect its assets and operations in the foreseeable future particularly salaries and wages pressure, workforce shortages, supply chain disruption and broad inflationary pressures. Our ability to make estimates of any such continuing effects of evolving strains of COVID-19 on future revenues, expenses or changes in accounting judgments that have had or are reasonably likely to have a material effect on our financial statements is very limited, depending as they do on the severity and length thereof; as well as any further government actions and/or regulatory changes intended to address such effects.

Note 3. – 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 and three patient clinics, Trace Extended Care operations –On January 22, 2024, the Company's indirect subsidiary, Southern Health Corporation of Houston, Inc. ("Southern"), reached a revised agreement 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 those agreements, Southern sold certain personal and intangible property to Progressive for $500 pursuant to an asset purchase agreement ('Trace Assets Sale"), entered into a six-month net lease of certain hospital real property for $20 per month, and engaged Progressive under a management agreement to manage the operations of Trace pending receipt of certain regulatory approvals. As a result of the transaction, Southern's previous agreement with Progressive dated November 10, 2023, was terminated. Southern also entered into a real estate purchase agreement with Progressive ("Trace Hospital Sale") whereunder Progressive is to purchase certain real estate and improvements of Trace for $2,000 by July 31, 2024. As a result of the transactions ("Revised Agreement"), SunLink reported an impairment loss of $1,974 at December 31, 2023 to reduce the net value of the Trace hospital assets to the sale proceeds under the revised agreement and reported $58 of transaction expenses for the Revised Agreement. Southern is in the process of marketing the Trace Extended Care & Rehabilitation ("Trace Extended Care"), a skilled care nursing facility adjacent to the campus of Trace. Trace Extended Care, which Southern retains, is considered an asset held for sale at December 31, 2023. Southern is in the process of marketing for sale Trace Extended Care, which Southern retains. There can be no assurance that the Trace Real Estate purchase will be completed or that Trace Extended Care will be sold.

Sold Hospitals and Nursing Home– Subsidiaries of the Company have sold substantially all the assets of five (5) 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 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, 2023 and 2022, respectively.

The components of pension expense for the three and six months ended December 31, 2023 and 2022, respectively, were as follows:

	Three Months Ended December 31,		Six Months Ended December 31,	
	2023	2022	2023	2022
Interest cost	$ 11	$ 13	$ 22	$ 26
Expected return on assets	(9)	(10)	(18)	(21)
Amortization of prior service cost	0	0	0	0
Net pension expense	$ 2	$ 3	$ 4	$ 5

SunLink contributed $10 to the plan in the six months ended December 31, 2023 and expects to contribute an additional $10 during the last six months of the fiscal year ending June 30, 2024.

Details of statements of operations from discontinued operations for the three and six months ended December 31, 2023 and 2022, primarily reflecting the reporting of Trace as discontinued operations as a result of the Company's January 22, 2024 revised agreement to sell Trace and its plan to sell Trace Extended Care, are as follows:

	Three Months Ended December 31,		Six Months Ended December 31,	
	2023	2022	2023	2022
Net Revenues	$ 2,771	$ 3,752	$ 5,443	$ 7,352
Costs and Expenses:				
Salaries, wages and benefits	1,844	2,261	3,742	5,068
Supplies	267	367	556	673
Purchased services	600	777	1,307	1,576
Other operating expense	529	645	1,057	1,118
Rent and lease expense	34	34	67	60
Depreciation and amortization	133	0	266	199
Operating Loss	(636)	(332)	(1,552)	(1,342)
Other Income (Expense):				
Gains on sale of assets	0	1	0	1
Federal stimulus - Provider relief funds	0	0	0	61
Interest income (expense), net	0	5	0	1
Loss from Discontinued Operations before income taxes	(636)	— (326)	(1,552)	(1,279)
Impairment loss of Trace Assets and related sale expenses before income taxes	(2,032)	0	(2,032)	0
Loss from Discontinued Operations before income taxes	(2,668)	(326)	(3,584)	(1,279)
Income Tax Expense	0	0	0	0
Loss from Discontinued Operations, net of tax	$ (2,668)	$ (326)	$ (3,584)	$ (1,279)

Details of assets and liabilities held for sale at December 31, 2023 and June 30, 2023, which primarily reflect the reporting of Trace's and Trace Extended Care's assets to be sold and liabilities to be assumed as a result of the Company's January 22, 2024 revised agreement to sell the Trace hospital assets and its plans to dispose of Trace Extended Care are as follows:

	December 31, 2023	June 30, 2023
Receivables - net	$ 1,460	$ 1,659
Inventory	111	125
Prepaid expense and other assets	125	136
Property, plant and equipment, net	5,371	5,564
Impairment reserve	(1,974)	0
Right of use assets	232	246
Noncurrent assets	3	2
Total assets held for sale	$ 5,328	$ 7,732
Accounts payable	$ 1,249	$ 783
Accrued payroll and related taxes	361	361
Current operating lease liabilities	61	61
Other accrued expenses	24	121
Long-term operating lease liabilities	144	192
Total liabilities held for sale	$ 1,839	$ 1,518

Note 4. – Shareholders' Equity

Stock-Based Compensation – For the three and six months ended December 31, 2023 and 2022, the Company recognized no stock-based compensation for options issued to employees and directors of the Company. There were 9,000 shares issued as a result of options exercised during the six months ended December 31, 2023. There were 77,452 shares issued as a result of options exercised during the six months ended December 31, 2022.

Note 5. – Revenue and Accounts Receivable

Revenues by payor were as follows for the three and six months ended December 31, 2023 and 2022:

	Three Months Ended December 31,		Six Months Ended December 31,	
	2023	2022	2023	2022
Medicare	$ 3,984	$ 3,594	$ 7,814	$ 6,856
Medicaid	1,742	1,642	3,392	3,246
Retail and Institutional Pharmacy	1,618	2,535	3,322	4,034
Managed Care & Other Insurance	987	2,667	2,157	3,540
Self-pay	163	188	343	384
Other	16	14	37	29
Total Net Revenues	$ 8,510	$ 10,640	$ 17,065	$ 18,089

The revenues for the three months ended December 31, 2023 includes $59 of prior period sales tax refunds compared to a $2,615 increase in revenues in the three months ended December 31, 2022 as a result of a reduction in the accrued sales tax liability as described in Note 10. The revenues for six months ended December 31, 2023 includes $380 of prior period sales tax refunds, compared to $2,615 increase in revenues in the six months ended December 31, 2022 as a result of a reduction in the accrued sales tax liability as described in Note 10.

Accounts Receivable and Allowance for Doubtful Accounts

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 doubtful accounts for the three- and six months ended December 31, 2023 was as follows:

June 30, 2023 balance	$	532
Concession allowance expense		79
Write-offs		(203)
September 30, 2023 balance		408
Concession allowance expense		67
Write-offs		(104)
December 31, 2023 balance	$	371

Note 6. – Intangible Assets

As of December 31, 2023 and June 30, 2023, intangible assets consist solely of an indefinite-lived trade name of $1,180 under the Pharmacy Segment.

Amortization expense was $0 and $6 for the three months ended December 31, 2023 and 2022, respectively. Amortization expense was $0 and $13 for the six months ended December 31, 2023 and 2022, respectively.

Note 7. – Long-Term Debt

Long-term debt of discontinued operations which is included in current liabilities held for sale consisted of the following:

	December 31, 2023		June 30, 2023	
Finance Lease Obligations	$	0	$	14
Less current maturities		0		(14)
Long-term Debt	$	0	$	0

Note 8. – Income Taxes

Income tax expense of $3 (all state income taxes) was recorded for continuing operations for the three months ended December 31, 2023. Income tax benefit of $1 (all state income benefit) was recorded for continuing operations for the three months ended December 31, 2022. Income tax expense of $5 (all state income taxes) was recorded for continuing operations for the six months ended December 31, 2023. Income tax benefit of $1 (all state income benefit) for continuing operations for the six months ended December 30, 2022.

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 statuary 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, 2023, 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 $9,163 against the deferred tax asset so that there is no net long-term deferred income tax asset at December 31, 2023. 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, 2023 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, 2023 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 $28,082.

For federal income tax purposes, at December 31, 2023, the Company had approximately $28,082 of estimated net operating loss carry-forwards available for use in future years subject to the limitations of the provisions of Internal Revenue Code Section 382. These net operating loss carryforwards expire primarily in fiscal year 2023 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 9. – Leases

The Company has operating leases relating to its pharmacy operations, medical office buildings, 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, 2023 and 2022 are as follows:

Lease Cost	**Three Months Ended December 31, 2023**	**Three Months Ended December 31, 2022**	**Six Months Ended December 31, 2023**	**Six Months Ended December 31, 2022**
Operating lease cost:				
Operating lease cost	$ 85	$ 85	$ 170	$ 170
Short-term rent expense	7	7	12	13
Variable lease cost	0	0	1	1
Total operating lease cost	$ 92	$ 92	$ 183	$ 184

Supplemental balance sheet information relating to leases was as follows:

Operating Leases:	Balance Sheet Classifications	As of December 31, 2023	As of June 30, 2023
Operating lease ROU Assets	ROU Assets	$ 649	$ 798
Current operating lease liabilities	Current operating lease liabilities	331	334
Long-term operating lease liabilities	Long-term operating lease liabilities	$ 332	$ 481

Supplemental cash flow and other information related to leases as of and for the three and six months ended December 31, 2023 and 2022 are as follows:

	Three Months Ended		Six Months Ended	
Other information	December 31, 2023	December 31, 2022	December 31, 2023	December 31, 2022
Cash paid for amounts included in the measurement of lease liabilities:				
Operating cash flows from operating leases	$ 85	$ 85	$ 170	$ 170
Right-of-use assets obtained in exchange for new operating lease liabilities	0	9	18	16
Weighted-average remaining lease term:				
Operating leases	2.06 years	2.97 years	2.06 years	2.97 years
Weighted-average discount rate:				
Operating leases	0.98 %	1.02 %	0.98 %	1.02 %

Commitments relating to non-cancellable operating leases as of December 31, 2023 for each of the next five years and thereafter are as follows:

Payments due within	Operating Leases
1 year	$ 336
2 years	298
3 years	31
4 years	5
5 years	0
Over 5 years	0
Total minimum future payments	670
Less: Imputed interest	(7)
Total liabilities	663
Less: Current portion	(331)
Long-term liabilities	$ 332

Note 10. – Sales Tax Payable

During the fiscal year ended June 30, 2019, the Pharmacy segment 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. Refunds have been received from three taxing authorities in the amounts claimed on amended returns and a settlement was reached with one taxing authority to offset future sales tax payable. Amounts claimed and received from two taxing authorities providing refunds were recorded as revenues in the fiscal year ended June 30, 2020 in the amount of $359. During the six months ended

December 31, 2023, the Company recorded a refund received of $321 as revenue for a sales tax refund which was received in October 2023 and during the three months ended December 31, 2023, the Company recorded $59 for prior period sales tax settlements.

In addition, until October 1, 2022, the Company accrued as payable amounts for sales tax estimates from these taxing authorities in amounts management believed would be payable if the Company's position did not prevail. During the three months ended December 31, 2022, after discussions with the taxing authorities and external legal counsel, the Company determined that it was more likely than not that its position could be sustained going forward and accrued but unpaid sales tax would not be payable. Based on this determination, the Company reversed $2,615 of accrued sales tax during the three months ended December 31, 2022 as an increase of net revenues.

Note 11. – Commitments and Contingencies

The Company has no contractual obligations, commitments and contingencies related to outstanding debt and interest (excluding operating leases, see Note 9) at December 31, 2023.

Note 12. – Related Party Transactions

A director of the Company is senior counsel in a law firm which provides services to SunLink. The Company expensed an aggregate of $102 and $130 for legal services to this law firm in the three months ended December 31, 2023 and 2022, respectively and expensed an aggregate of $289 and $185 for legal services to this law firm in the six months ended December 31, 2023 and 2022, respectively. Included in the Company's condensed consolidated balance sheets at December 31, 2023 and June 30, 2023 is outstanding legal expenses to this firm $126 and $36, respectively,

Note 13. – Subsequent Events

Sale of Trace Regional Hospital, medical office building and three (3) patient clinics –On January 22, 2024, the Company's indirect subsidiary, Southern Health Corporation of Houston, Inc., reached revised agreements for the sale of Trace Regional Hospital, a medical office building and three (3) patient clinics in Chickasaw County, MS, (collectively "Trace") to Progressive Health of Houston, LLC, ("Progressive"). Pursuant to these agreements, Southern sold certain personal and intangible property to Progressive for $500 under an asset purchase agreement, entered into a six-month net lease of certain hospital real property for $20 per month, and engaged Progressive under a management agreement to manage the operations of the hospital and clinics pending receipt of certain regulatory approvals. As a result of the transaction, Southern's agreement with Progressive dated November 10, 2023, was terminated. Southern also entered into a real estate purchase agreement with Progressive under which Progressive is to purchase the real estate and improvements of Trace for $2,000 by July 31, 2024. Southern is in the process of marketing for sale Trace Extended Care, which Southern retains. There can be no assurance that the Trace Real Estate purchase will be completed or that Trace Extended Care will be sold.

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." 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. Throughout this annual 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 customary services, the efficiency of such services, availability of staffing, availability of supplies, costs and financial results. Future COVID-19, its variants or other pandemics of other contagious diseases could result in the unavailability of personnel to provide services, regulatory bans on certain services or admissions, decreased occupancy levels, increase costs, reduce our revenues and otherwise adversely affect our business;
- the competitive nature of the U.S. community hospital, extended care and rehabilitation center, nursing home, and pharmacy businesses;
- demographic characteristics and changes in areas where we operate, including resistance to vaccination for COVID-19 and/or its variants;
- the availability of cash or borrowings to fund working capital, renovations, replacements, expansions, and capital improvements at existing healthcare and pharmacy facilities and for acquisitions and replacement of such facilities;
- changes in accounting principles generally accepted in the U.S.;
- the impact of inflation on our patients, 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 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 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 the COVID-19 pandemic or future pandemics and absence of forgiveness features in any such future loans or an inability to meet the usage or forgiveness requirements;

•the ability to achieve compliance with requirements of the expenditure and retention of Provider Relief Funds ("PRF");

•the ability or inability to fund our obligations under capital leases or new or existing obligations and/or any existing or potential defaults under existing indebtedness;

•restrictions imposed by existing or future contractual obligations including existing or 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;

•the impact on hospital, clinic, and nursing home services of the treatment of patients in alternative or lower acuity healthcare settings, such as with drug therapy, in surgery centers, and urgent care centers, retirement homes or at home;

•changes in medical and other technology;

•increases in prices of materials and services utilized in our Healthcare Services and Pharmacy segments;

•increases in wages as a result of inflation or competition for physician, nursing, 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 Healthcare Services and Pharmacy segments 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 segment; and

•the restrictions, clawbacks, processes, and conditions relating to our Pharmacy segment 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 asset past and future sales or discontinued operations, including claims from sold or leased facilities and services, retained liabilities or retained subsidiaries;

•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 based on a failure currently unknown to us of our physicians and other personnel to comply with COVID-19 vaccination mandates;

•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 continuing decision by Mississippi (where we operate our remaining hospital and nursing home) to not expand Medicaid;
- the regulatory environment for our businesses, including state certificate of need laws and regulations, pharmacy licensing laws and regulations, rules and judicial cases relating thereto, including proposed nursing home minimum staffing requirements;
- changes in the levels and terms of government (including Medicare, Medicaid and other programs) and private reimbursement for SunLink's healthcare services including the payment arrangements and terms of managed care agreements; indigent care and other reimbursements (e.g. Medicare Upper Payment Limit "UPL" and Disproportionate Share Hospital "DSH" adjustments) and governmental assessments for such programs;
- 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 Healthcare Services and Pharmacy segments; and
- the possible enactment of additional Federal healthcare reform laws or reform laws or regulations in states where our subsidiaries operate hospital and pharmacy facilities (including Medicaid waivers, bundled payments, managed care programs, accountable care and similar organizations, competitive bidding and other reforms).

Dispositions, Acquisition and Renovation Related Matters

- the ability to dispose of underperforming facilities, underperforming business segments and surplus assets on acceptable terms;
- the availability of cash and the terms of borrowed or equity capital to fund acquisitions or replacement facilities, improvements or renovations to existing facilities or both; and
- competition in the market for acquisitions of hospitals, rehabilitation centers, nursing homes, 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 this Quarterly Report 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 this Quarterly 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, 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: Operations, Dispositions and Acquisitions

The Board of Directors of SunLink believes the Company needs to expand if it is to continue as a public corporation or effect an extraordinary corporate transaction involving a merger with, acquisition by or other affiliation with another suitable corporation. To do so, the Board believes Management should, among other things: (i) actively pursue one or more extraordinary corporate transactions, any of which transactions may involve a merger or consolidation with a compatible third party, as a result of which the Company may or may not be in the majority, (ii) continue the Company's business strategy to focus its efforts on improving its operations and services generally and achieving and maintaining profitability in its existing Pharmacy business, which may include selective acquisitions, subject to available capital, (iii) pursue dispositions of underperforming subsidiaries or facilities and, (iv) effect corporate governance changes which were approved at the Special Meeting of Shareholders held on October 19, 2023, which approved reincorporation in Georgia with governing documents which provide for majority shareholder voting to better enable the Company to pursue any such extraordinary corporate transaction which may be judged favorable to the Company and its shareholders. On January 22, 2024, the Company's indirect subsidiary, Southern Health Corporation of Houston, Inc. (“Southern”), reached 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 Southern sold certain personal and intangible property to Progressive for $500 under to an asset purchase agreement ('Trace Assets Sale"), entered into a six-month net lease of certain hospital real property for $20 per month, and engaged Progressive under a management agreement to manage the operations of Trace pending receipt of certain regulatory approvals. As a result of the transaction, Southern’s previous agreement with Progressive dated November 10, 2023, was terminated. Southern also entered into a real estate purchase agreement with Progressive ("Trace Hospital Sale") whereby Progressive is to purchase certain real estate and improvements of Trace for $2,000 by July 31, 2024. Southern is in the process of marketing for sale the Trace Extended Care & Rehabilitation ("Trace Extended Care"), a skilled care nursing facility adjacent to the campus of Trace. Trace Extended Care, which Southern retains, is considered an asset held for sale at December 31, 2023. There can be no assurance any extraordinary corporate transaction, the Trace Hospital Sale or the sale of Trace Extended Care will be completed.

The Company expects to use existing cash primarily to sustain its operations, and to fund activities related to such extraordinary transactions when available and appropriate, and for other general corporate purposes. The Company believes certain portions of its businesses continue to under-perform and the Company periodically entertains overtures for the sale of one or more of its businesses when deemed appropriate, including to better position the company for an extraordinary corporate business transaction such as a merger or consolidation.

In connection with a Special Meeting of Shareholders to reincorporate in Georgia and approve majority voting, a total of 7,032 Series C Preferred Shares were issued, each entitled to one million (1,000,000) votes and in turn each Series C Fractional Interest in such a Series C Preferred Share was issued for each Common Share of the Company and accordingly was entitled to one thousand (1,000) votes out of such one million votes of the corresponding Series C Preferred. Series C Fractional Interests could not be transferred separately from the Common Shares and were represented by the Common Shares. Each Common Share was entitled to one (1) vote as a Common Share and also one thousand (1,000) votes for the corresponding Series C Fractional Interest thereon, on each matter properly brought before the special shareholders’ meeting which was held on October 19, 2023 and at which shareholder approval of the Company's reincorporation from the state of Ohio to Georgia (the “Special Meeting”). A further description of the Series C Preferred Shares and the Series C Fractional Interests and the terms and provisions thereof is set forth in the Company’s Current Report on Form 8-K filed with the SEC on August 11, 2023.

There is no assurance that any strategic transaction will be authorized by the Company's Board of Directors or, if authorized, that any such transaction will be completed.

COVID-19 Pandemic and CARES Act Funding

The Company continued to experience adverse after-effects of the COVID-19 pandemic in the quarter ended December 31, 2023 and believes such effects will likely continue to affect its assets and operations in the foreseeable future particularly salaries and wages pressure, workforce shortages, supply chain disruption and broad inflationary pressures. Our ability to make estimates of any such continuing effects of evolving strains of COVID-19 on future revenues, expenses or changes in accounting judgments that have had or are reasonably likely to have a material effect on our financial statements is very limited, depending as they do on the severity and length thereof; as well as any further government actions and/or regulatory changes intended to address such effects.

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 2023 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, 2023 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,		
	2023	2022	% Change	2023	2022	% Change
Net Revenues	$ 8,510	$ 10,640	(20.0)%	$ 17,065	$ 18,089	(5.7)%
Costs and expenses	(8,943)	(8,370)	6.8%	(17,948)	(16,436)	9.2%
Operating profit (loss)	(433)	2,270	(119.1)%	(883)	1,653	(153.4)%
Interest income (expense) - net	29	5	480.0%	51	5	920.0%
Gain on sale of assets	0	1	NA	2	13	(84.6)%
Earnings (Loss) from continuing operations before income taxes	$ (404)	$ 2,276	(117.8)%	$ (830)	$ 1,671	(149.7)%

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, 2023 and 2022:

	Three Months Ended December 31,		Six Months Ended December 31,	
	2023	2022	2023	2022
Medicare	$ 3,984	$ 3,594	$ 7,814	$ 6,856
Medicaid	1,742	1,642	3,392	3,246
Retail and Institutional Pharmacy	1,618	2,535	3,322	4,034
Managed Care & Other Insurance	987	2,667	2,157	3,540
Self-pay	163	188	343	384
Other	16	14	37	29
Total Net Revenues	$ 8,510	$ 10,640	$ 17,065	$ 18,089

Pharmacy net revenues for the three month period ended December 31, 2023 decreased $2,105 or 20% from the three month period ended December 31, 2022 and decreased $983 or 6% from the six month period ended December 31, 2023 from the six month period ended December, 2022. The revenues for the three months ended December 31, 2023 include $59 of prior period sales tax refunds and the revenues for the six months ended December 31, 2023 include $380 of prior period sales tax refunds. The decreased net revenues this year results primarily from the recognition of prior periods' accrued sales tax of $2,615 in the three months ended December 31, 2022.

Costs and expenses, including depreciation and amortization, were $8,943 and $8,370 for the three months ended December 31, 2023 and 2022, respectively. Costs and expenses, including depreciation and amortization, were $17,948 and $16,436 for the six months ended December 31, 2023 and 2022, respectively.

	Cost and Expenses as a % of Net Revenues			
	Three Months Ended December 31,		Six Months Ended December 31,	
	2023	2022	2023	2022
Cost of goods sold	56.0%	42.4%	55.9%	49.1%
Salaries, wages and benefits	31.4%	23.3%	31.0%	27.7%
Supplies	0.5%	0.4%	0.4%	0.4%
Purchased services	3.3%	2.2%	3.3%	2.7%
Other operating expenses	9.2%	6.8%	9.9%	6.9%
Rent and lease expense	1.1%	0.9%	1.1%	1.0%
Depreciation and amortization expense	3.7%	2.7%	3.6%	3.1%

Almost all categories of costs and expenses increased as a percent of net revenues in the three and six months ended December 31, 2023 compared to the prior fiscal year due to the increased net revenues last year which included the sales tax recognition of $2,615 and due to the corporate overhead costs of a public company in relation to the Company's smaller size. Cost of goods sold increased in total due to higher cost of certain pharmaceuticals and DME products which resulted from supply chain issues. Salaries, wages and benefits ("SWB")increased in total for the three and six months ended December 31, 2023 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, including contract labor. Purchased services cost increased this year due to increased cost of fuel, and increased costs of software support services. Other operating expenses for the three and six months ending December 31, 2023 increased from the prior year's comparable quarter primarily due to increased legal expenses relating to the change in state of incorporation from Ohio to Georgia, which was finalized in October 2023 and decrease equity method income from investment in a minority-owned subsidiary. Depreciation expense also increased this year due to the $1,337 of pharmacy capital expenditures last fiscal year.

Operating Loss

The Company reported an operating loss of $433 for the three months period ended December 31, 2023 compared to operating profit of $2,270 for the three months period ended December 31, 2022. The $2,703 decreased operating loss for the three months ended December 31, 2023 compared to the three months period ended December 31, 2022 resulted from the 20% decrease in net revenues this quarter. The Company reported an operating loss of $883 for the six months period ended December 31, 2023 compared to an operating profit of $1,653 for the six months period ended December 31, 2022. The $2,536 increased operating loss for the six months ended December 31, 2023 compared to the six months period ended December 31, 2022 resulted primarily from the 6% decrease during the current six month period.

Income Taxes

Income tax expense of $3 (all state income taxes) was recorded for continuing operations for the three months ended December 31, 2023. Income tax benefit of $1 (all state income tax benefit) was recorded for continuing operations for the three months ended December 31, 2022. Income tax expense of $5 (all state income taxes) was recorded for continuing operations for the six months ended December 31, 2023. Income tax benefit of $1 (all state income tax benefit) for continuing operations for the six months ended December 31, 2022.

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 statuary 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, 2023, 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 $9,164 against the deferred tax asset so that there is no net long-term deferred income tax asset at December 31, 2023. 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, 2023 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, 2023 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 $28,082.

For federal income tax purposes, at December 31, 2023, the Company had approximately $28,082 of estimated net operating loss carry-forwards available for use in future years subject to the limitations of the provisions of Internal Revenue Code Section 382. These net operating loss carryforwards expire primarily in fiscal year 2023 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 Discontinued Operations after Income Taxes

The loss from discontinued operations after income taxes was $2,668 for the three month period ended December 31, 2023 compared to a loss from discontinued operations after income taxes of $326 for the three month period ended December 31, 2022. The increased loss this year included an impairment charge of $1,974 required to write down the net assets of the Trace Hospital Assets and expense of $58 for sale transaction costs. The loss from discontinued operations after income taxes was $3,584 for the six month period ended December 31, 2023 compared to a loss from discontinued operations after income taxes of $1,279 for the three month period ended December 31, 2022.

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 and three (3) patient clinics–On January 22, 2024, the Company's indirect subsidiary, Southern Health Corporation of Houston, Inc. ("Southern"), reached 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 those agreements, Southern sold certain personal and intangible property to Progressive for $500 under an asset purchase agreement ('Trace Assets Sale"), entered into a six-month net lease of certain hospital real property for $20 per month, and engaged Progressive under a management agreement to manage the operations of Trace until receipt of certain regulatory approvals. As a result of the transaction, Southern's previous agreement with Progressive dated November 10, 2023 was terminated. Southern also entered into a real estate purchase agreement with Progressive ("Trace Hospital Sale") under which Progressive is to purchase the real estate and improvements of Trace for $2,000 by July 31, 2024. As a result of the transactions ("Revised Agreements"), SunLink reported an impairment charge of $1,974 at December 31, 2023 to reduce the net value of the Trace hospital assets to the sale proceeds under the Revised Agreements and $58 of transaction expenses incurred through that date. Southern is in the process of marketing the Trace Extended Care & Rehabilitation ("Trace Extended Care"), a skilled care nursing facility adjacent to the campus of Trace. Trace Extended Care, which Southern retains, is considered an asset held for sale at December 31, 2023. There can be no assurance the Trace Hospital Sale or the sale of Trace Extended Care will be completed.

Sold Hospitals and Nursing Home – Subsidiaries of the Company have sold substantially all the assets of five 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 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 operations for this segment for the three and six months ended December 31, 2023 and 2022, respectively.

Net Loss

Net loss for the three months period ended December 31, 2023 was $3,075 (or a loss of $0.44 per fully diluted share) as compared to net earnings of $1,951 (or $0.28 per fully diluted share) for the three months period ended December 31, 2022. Net loss for the six months period ended December 31, 2023 was $4,419 (or a loss of $0.63 per fully diluted share) as compared to net earnings of $393 (or $0.06 per fully diluted share) for the six months period ended December 31, 2022.

Liquidity and Capital Resources

Overview

The Company and its subsidiaries' primary source of liquidity for working capital and operational needs, to pursue extraordinary corporate transactions and for general corporate purposes, is unrestricted cash on hand, which was $2,055 at December 31, 2023, and the sale of assets. From time-to-time, we may, nevertheless, seek to obtain financing for the liquidity needs of the Company or individual subsidiaries

CARES Act Funds - The CARES Act was enacted by the U.S. government on March 27, 2020 provided the relief to health care providers under the CARES Act in the form of grants under PRF and forgivable loans under PPP. We received a total of $9,416 under the CARES Act programs consisting of $6,182 in general and targeted PRF and $3,234 of PPP loans. During the first two calendar quarters of 2021, the Company became eligible for, and we applied for $3,586 of ERC through amended quarterly payroll tax filings, all of which the Company has received as of the date of this filing.

Subject to the effects, risks and uncertainties associated with the aftermath of the COVID-19 pandemic and our ability to retain the CARES funds described above, as well as our ability to complete the disposition of certain unprofitable operations, including the Trace transaction, we believe we have adequate financing and 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 outstanding debt, noncancelable operating leases and interest on outstanding debt from continuing operations at December 31, 2023 were as follows:

Payments due within:		Operating Leases
1 year	$	336
2 years		298
3 years		31
4 years		5
5 years		0
Over 5 years		0
	$	670

As of December 31, 2023, we had no outstanding debt.

The Company currently expects to purchase approximately $800 of capitalizable DME by the Pharmacy segment (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. 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 2023 and 2022. 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 six months ended December 31, 2023, subject to further operating and administrative cost increases, and other settlements of cost reports and other liabilities in the ordinary course of business, and the Company’s ability to retain unrecognized CARES Act grants, PPP funds and ERC funds received or previously received. 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 three months ended December 31, 2023. Other than with respect to scheduled cash expenditures (based on current operating levels) for long-term debt, operating leases, and interest on current outstanding debt, the debt, the specific items previously disclosed here, as well as continued uncertainties relating to the aftermath of the COVID-19 pandemic, 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 Notes 7, 9, 10, and 11 to our 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 2021, 2022 and 2023 to date will mitigate.

Related Party Transactions

A director of the Company is senior counsel in a law firm which provides services to SunLink. The Company expensed an aggregate of $102 and $130 for legal services to this law firm in the three months ended December 31, 2023 and 2022, respectively and expensed an aggregate of $289 and $185 for legal services to this law firm in the six months ended December 31, 2023 and 2022, respectively. Included in the Company's condensed consolidated balance sheets at December 31, 2023 and June 30, 2023 is outstanding legal expenses to this firm $126 and $36, 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, 2023.

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, 2023. The effect, if any, of the COVID-19 pandemic on the effectiveness of current disclosure controls and procedures in future periods is uncertain and we intend to revise the same, if any, and to the extent deemed appropriate.

Changes in Internal Control Over Financial Reporting

There were no changes during the quarter ended December 31, 2023 in our internal control over financial reporting that materially affected, or is believed likely to materially affect, our internal controls over financial reporting. Notwithstanding staff absences and turnover and challenges hiring new and replacement staff, including in our financial departments, to date, we do not believe the COVID-19 pandemic has had any material effect on the effectiveness of our disclosure controls and procedures, however we cannot assure you that our internal controls will not be affected in the case of other or recurrent pandemics.

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, 2023. 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 6. EXHIBITS

Exhibits:

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, 2023, formatted in iXBRL (eXtensible Business Reporting Language): (i) Condensed Consolidated Balance Sheets as of December 31, 2023 (unaudited) and June 30, 2023, (ii) Condensed Consolidated Statements of Operations and Comprehensive Earnings (Loss) for the three and six months ended December 31, 2023 and 2022 (unaudited), (iii) Condensed Consolidated Statements of Cash Flows for the three and six months ended December 31, 2023 and 2022 (unaudited), and (iv) Notes to Condensed Consolidated Financial Statements (unaudited), tagged as blocks of text.

104	Cover Page Interactive Data File (formatted as Inline XRBL 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 13, 2024

Exhibit 31.1

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, 2023 (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, 2023 (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 13, 2024

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

Exhibit 31.2

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, 2023 (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, 2023 (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 13, 2024	/s/ Mark J. Stockslager Mark J. Stockslager SunLink Health Systems, Inc. Chief Financial Officer

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 quarterly report of SunLink Health Systems, Inc. (the “Company”) on Form 10-Q for the quarterly period ended December 31, 2023, 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 13, 2024

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

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 quarterly report of SunLink Health Systems, Inc. (the "Company") on Form 10-Q for the quarterly period ended December 31, 2023 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 13, 2024

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