SUNLINK HEALTH SYSTEMS INC Form 10-Q February 14, 2011

#### UNITED STATES

#### SECURITIES AND EXCHANGE COMMISSION

Washington D.C. 20549

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended December 31, 2010

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_\_ to \_\_\_\_\_.

Commission File Number 1-12607

SUNLINK HEALTH SYSTEMS, INC.

(Exact name of registrant as specified in its charter)

Ohio (State or other jurisdiction of

31-0621189 (I.R.S. Employer

incorporation or organization)

**Identification No.)** 

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

(Address of principal executive offices)

(Zip Code)

(770) 933-7000

(Registrant s telephone number, including area code)

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

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

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

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

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

The number of Common Shares, without par value, outstanding as of February 11, 2011 was 8,081,732.

### SUNLINK HEALTH SYSTEMS, INC. AND SUBSIDIARIES

### CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands)

	December 31, 2010 (unaudited)	June 30, 2010	
<u>ASSETS</u>			
Current Assets:			
Cash and cash equivalents	\$ 1,231	\$ 1,704	
Receivables - net	18,680	17,233	
Inventory	4,770	4,823	
Income tax receivable	1,776	345	
Deferred income tax asset	5,858	6,030	
Prepaid expenses and other	3,720	4,499	
Total Current Assets	36,035	34,634	
Property, Plant and Equipment, at cost	73,457	72,474	
Less accumulated depreciation and amortization	33,923	31,118	
Less accumulated depreciation and amortization	33,923	31,116	
Property, Plant and Equipment - net	39,534	41,356	
Intangible assets-net	11,457	11,776	
Goodwill	9,024	9,024	
Other assets	367	1,700	
Total Assets	\$ 96,417	\$ 98,490	
<u>LIABILITIES AND SHAREHOLDERS EQUIT</u> Y			
Current Liabilities:	<b>.</b>		
Accounts payable	\$ 8,667	\$ 8,445	
Revolving advances	2,800	-	
Current maturities of long-term debt	30,000	1,797	
Current maturities of subordinated long-term debt	300	300	
Accrued payroll and related taxes	4,985	5,129	
Third-party payor settlements	1,177	-	
Income taxes	<del>-</del>	607	
Other accrued expenses	2,814	2,828	
Total Current Liabilities	50,743	19,106	
Long-Term Liabilities:			
Long-term debt	18	29,090	
Subordinated long-term debt	2,100	2,250	
Noncurrent liability for professional liability risks	3,206	2,956	
Noncurrent deferred income tax liabilities	1,403	1,625	
Other noncurrent liabilities	775	771	
Total Long-term Liabilities	7,502	36,692	
Commitments and Contingencies			
Shareholders Equity:			
Preferred shares, authorized and unissued, 2,000 shares			
Common shares, without par value:			

Issued and outstanding, 8,082 shares at December 31, 2010		
and 8,079 shares at June 30, 2010	4,040	4,039
Additional paid-in capital	11,713	11,701
Retained earnings	22,032	26,565
Accumulated other comprehensive loss	(301)	(301)
Total Parent Company Shareholders Equity	37,484	42,004
Noncontrolling interest	688	688
Total Shareholders Equity	38,172	42,692
Total Liabilities and Shareholders Equity	\$ 96,417	\$ 98,490

See notes to condensed consolidated financial statements.

### SUNLINK HEALTH SYSTEMS, INC.

### CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS

(in thousands, except per share amounts)

### (unaudited)

Net Revenues		THREE MONTHS ENDED December 31,		5	SIX MONTHS ENDED December 31,				
Costs and Expenses:         Cost of goods sold         8,443         8,968         14,251         15,598           Salaries, wages and benefits         19,739         20,082         39,040         40,042           Provision for bad debts         5,133         6,014         11,357         12,526           Supplies         3,688         3,981         7,341         7,849           Purchased services         3,085         3,089         6,136         6,107           Other operating expenses         6,096         5,681         12,439         11,572           Rent and lease expense         849         808         1,688         1,628           Depreciation and amortization         1,547         1,695         3,140         3,357           Gain on sale of Home Health businesses         1         7         (2,437)         2,125           Operating Profit (Loss)         171         7         (2,437)         2,125           Other Income (Expense)         1         6         2         9           Earnings Profit (Loss)         (3,229)         (859)         (4,077)         (1,778)           Interest expense         (3,022)         (3,022)         (3,022)         (4,077)         (1,778) <td< th=""><th></th><th>2</th><th>2010</th><th>2</th><th>009</th><th></th><th>2010</th><th></th><th>2009</th></td<>		2	2010	2	009		2010		2009
Cost of goods sold         8,443         8,968         14,251         15,988           Salaries, wages and benefits         19,739         20,082         39,040         40,042           Provision for bad debts         5,133         6,014         11,357         12,526           Supplies         3,688         3,981         7,341         7,849           Purchased services         3,088         3,981         7,341         7,849           Purchased services         6,096         5,681         12,439         11,572           Rent and lease expenses         6,096         5,681         12,439         11,572           Rent and lease expenses         8,499         808         1,688         1,628           Gain on sale of Home Health businesses         -         -         -         (2,342)           Operating Profit (Loss)         171         77         (2,437)         2,125           Other Income (Expense):         1         77         (2,437)         2,125           Other Income (Expense):         1         6         2         9           Earnings (Loss) from Continuing Operations before Income Taxes         (3,057)         (776)         (6,512)         356           Income Tax Expense (Benefit)	Net Revenues	\$	48,751	\$ 5	0,395	\$	92,955	\$ 9	98,462
Cost of goods sold         8,443         8,968         14,251         15,988           Salaries, wages and benefits         19,739         20,082         39,040         40,042           Provision for bad debts         5,133         6,014         11,357         12,526           Supplies         3,688         3,981         7,341         7,849           Purchased services         3,088         3,981         7,341         7,849           Purchased services         6,096         5,681         12,439         11,572           Rent and lease expenses         6,096         5,681         12,439         11,572           Rent and lease expenses         8,499         808         1,688         1,628           Gain on sale of Home Health businesses         -         -         -         (2,342)           Operating Profit (Loss)         171         77         (2,437)         2,125           Other Income (Expense):         1         77         (2,437)         2,125           Other Income (Expense):         1         6         2         9           Earnings (Loss) from Continuing Operations before Income Taxes         (3,057)         (776)         (6,512)         356           Income Tax Expense (Benefit)	Costs and Expenses:								
Salaries, wages and benefits         19,739         20,082         39,040         40,042           Provision for bad debts         5,133         6,014         11,357         12,526           Supplies         3,688         3,981         7,341         7,849           Purchased services         3,085         3,085         6,136         6,107           Other operating expenses         6,096         5,681         12,439         11,572           Rent and lease expense         849         808         1,688         1,628           Depreciation and amortization         1,547         1,695         3,140         3,357           Gain on sale of Home Health businesses         7         7         (2,437)         2,125           Operating Profit (Loss)         171         77         (2,437)         2,125           Operating Profit (Loss)         171         77         (2,437)         2,125           Operating Profit (Loss)         18         6         2         9           Interest expense         (3,229)         (859)         (4,077)         (1,778)           Interest expense         (3,025)         (859)         (4,077)         (1,778)           Interest expense (Benefit)         (978) <td< td=""><td></td><td></td><td>8.443</td><td></td><td>8.968</td><td></td><td>14.251</td><td></td><td>15.598</td></td<>			8.443		8.968		14.251		15.598
Provision for bad debts         5,133         6,014         11,357         12,526           Supplies         3,688         3,981         7,341         7,849           Purchased services         3,088         3,089         6,136         6,107           Other operating expenses         6,096         5,681         12,439         11,572           Rent and lease expenses         849         808         16,88         1,628           Depreciation and amortization         1,547         1,695         3,140         3,357           Gain on sale of Home Health businesses         -         -         -         (2,342)           Operating Profit (Loss)         171         77         (2,437)         2,125           Other Income (Expense):         -         -         -         -         2,342           Interest income         1         6         2         9           Earnings (Loss) from Continuing Operations before Income Taxes         (3,057)         (776)         (6,512)         356           Income Tax Expense (Benefit)         (978)         (365)         (1,788)         218           Earnings (Loss) from Continuing Operations         (2,079)         (411)         (4,724)         138           Earnings									
Supplies         3,688         3,981         7,341         7,849           Putchased services         3,085         3,089         6,136         6,107           Other operating expenses         6,096         5,681         12,439         11,572           Rent and lease expense         849         808         1,688         1,628           Depreciation and amortization         1,547         1,695         3,140         3,357           Gain on sale of Home Health businesses         -         -         -         (2,437)         2,125           Oberating Profit (Loss)         171         77         (2,437)         2,125           Other Income (Expense):         1         6         2         9           Interest sepnse         (3,229)         (859)         (4,077)         (1,778)           Interest sepnse         (3,057)         (776)         (6,512)         356           Income Tax Expense (Benefit)         (978)         (365)         (1,788)         218           Earnings (Loss) from Continuing Operations         (2,079)         (411)         (4,724)         138           Earnings (Loss) from Discontinued Operations:         (3,051)         (524)         (4,534)         (28)           Earnings (L									
Purchased services   3.085   3.089   6.136   6.107     Other operating expenses   6.096   5.681   12.439   11.572     Rent and lease expense   8.49   808   1.688   1.628     Depreciation and amortization   1.547   1.695   3.140   3.357     Gain on sale of Home Health businesses   (2.342)     Operating Profit (Loss)   171   77   (2.437)   2.125     Other Income (Expense):									
Other operating expenses         6,096         5,681         12,439         11,572           Rent and lease expense         849         808         1,688         1,628           Depreciation and amortization         1,547         1,095         3,140         3,357           Gain on sale of Home Health businesses         -         -         -         -         -         2,2342           Operating Profit (Loss)         171         77         (2,437)         2,125           Other Income         Expenses):         -         -         -         -         2,125           Other Income (Expense):         -         -         -         -         1,777         (1,778)           Interest expense         (3,229)         (859)         (4,077)         (1,778)           Interest income         1         6         2         9           Earnings (Loss) from Continuing Operations before Income Taxes         (3,057)         (776)         (6,512)         356           Income Tax Expense (Benefit)         (978)         (365)         (1,788)         218           Earnings (Loss) from Continuing Operations         (2,079)         (411)         (4,724)         138           Earnings (Loss) From Continuing Operations:         <									
Rent and lease expense         849         808         1,688         1,628           Depreciation and amortization         1,547         1,695         3,140         3,357           Gain on sale of Home Health businesses         -         -         -         -         (2,342)           Operating Profit (Loss)         171         77         (2,437)         2,125           Other Income (Expense):	Other operating expenses						12,439		
Depreciation and amortization         1,547         1,695         3,140         3,357           Gain on sale of Home Health businesses         -         -         -         (2,342)           Operating Profit (Loss)         171         77         (2,437)         2,125           Other Income (Expense):         Interest expense         (3,229)         (859)         (4,077)         (1,778)           Interest income         1         6         2         9           Earnings (Loss) from Continuing Operations before Income Taxes income Taxes (Benefit)         (3,057)         (776)         (6,512)         356           Income Tax Expense (Benefit)         (978)         (365)         (1,788)         218           Earnings (Loss) from Continuing Operations         (2,079)         (411)         (4,724)         138           Earnings (Loss) from Discontinued Operations         314         (113)         190         (166)           Net Loss         \$ (0,26)         \$ (0,05)         \$ (0,58)         \$ 0,02           Earnings (Loss) Per Share:         Continuing Operations:           Basic         \$ (0,26)         \$ (0,05)         \$ (0,58)         \$ 0,02           Diluted         \$ (0,26)         \$ (0,01)         \$ (0,02)         \$ (									
Operating Profit (Loss)         171         77         (2,437)         2,125           Other Income (Expense):         Interest expense         (3,229)         (859)         (4,077)         (1,778)           Interest income         1         6         2         9           Earnings (Loss) from Continuing Operations before Income Taxes Income Taxes (Benefit)         (3,057)         (776)         (6,512)         356           Income Tax Expense (Benefit)         (978)         (365)         (1,788)         218           Earnings (Loss) from Continuing Operations         (2,079)         (411)         (4,724)         138           Earnings (Loss) from Discontinued Operations         314         (113)         190         (166)           Net Loss         \$ (1,765)         \$ (524)         \$ (4,534)         \$ (28)           Earnings (Loss) Per Share:         Continuing Operations:           Basic         \$ (0,26)         \$ (0.05)         \$ (0.58)         \$ 0.02           Diluted         \$ (0,26)         \$ (0.05)         \$ (0.58)         \$ (0.02)           Diluted         \$ (0,04)         \$ (0,01)         \$ (0.02)         \$ (0.02)           Diluted         \$ (0,04)         \$ (0,01)         \$ (0.05)         \$ (0.05)			1,547		1,695		3,140		3,357
Other Income (Expense):         Interest expense         (3,229) (859) (4,077) (1,778)           Interest expense         (3,229) (859) (4,077) (1,778)         (1,778)           Interest income         1 6 2 9           Earnings (Loss) from Continuing Operations before Income Taxes (3,057) (776) (6,512) 356         (6,512) 356           Income Tax Expense (Benefit) (978) (365) (1,788) 218           Earnings (Loss) from Continuing Operations (2,079) (411) (4,724) 138           Earnings (Loss) from Discontinued Operations (1,66)           Net Loss         \$ (1,765) \$ (524) \$ (4,534) \$ (28)           Earnings (Loss) Per Share:         Continuing Operations:           Basic         \$ (0,26) \$ (0,05) \$ (0,05) \$ (0,58) \$ 0,02           Diluted         \$ (0,26) \$ (0,05) \$ (0,05) \$ (0,58) \$ (0,02)           Diluted         \$ (0,04) \$ (0,01) \$ (0,02) \$ (0,02)           Net Loss:         \$ (0,04) \$ (0,01) \$ (0,05) \$ (0,05) \$ (0,05)			-		-		-		(2,342)
Other Income (Expense):         Interest expense         (3,229) (859) (4,077) (1,778)           Interest expense         (3,229) (859) (4,077) (1,778)         (1,778)           Interest income         1 6 2 9           Earnings (Loss) from Continuing Operations before Income Taxes (3,057) (776) (6,512) 356         (6,512) 356           Income Tax Expense (Benefit) (978) (365) (1,788) 218           Earnings (Loss) from Continuing Operations (2,079) (411) (4,724) 138           Earnings (Loss) from Discontinued Operations (1,66)           Net Loss         \$ (1,765) \$ (524) \$ (4,534) \$ (28)           Earnings (Loss) Per Share:         Continuing Operations:           Basic         \$ (0,26) \$ (0,05) \$ (0,05) \$ (0,58) \$ 0,02           Diluted         \$ (0,26) \$ (0,05) \$ (0,05) \$ (0,58) \$ (0,02)           Diluted         \$ (0,04) \$ (0,01) \$ (0,02) \$ (0,02)           Net Loss:         \$ (0,04) \$ (0,01) \$ (0,05) \$ (0,05) \$ (0,05)									
Other Income (Expense):         Interest expense         (3,229) (859) (4,077) (1,778)           Interest expense         (3,229) (859) (4,077) (1,778)         (1,778)           Interest income         1 6 2 9           Earnings (Loss) from Continuing Operations before Income Taxes (3,057) (776) (6,512) 356         (6,512) 356           Income Tax Expense (Benefit) (978) (365) (1,788) 218           Earnings (Loss) from Continuing Operations (2,079) (411) (4,724) 138           Earnings (Loss) from Discontinued Operations (1,66)           Net Loss         \$ (1,765) \$ (524) \$ (4,534) \$ (28)           Earnings (Loss) Per Share:         Continuing Operations:           Basic         \$ (0,26) \$ (0,05) \$ (0,05) \$ (0,58) \$ 0,02           Diluted         \$ (0,26) \$ (0,05) \$ (0,05) \$ (0,58) \$ (0,02)           Diluted         \$ (0,04) \$ (0,01) \$ (0,02) \$ (0,02)           Net Loss:         \$ (0,04) \$ (0,01) \$ (0,05) \$ (0,05) \$ (0,05)	Operating Profit (Lega)		171		77		(2.427)		2 125
Interest expense   (3,229)   (859)   (4,077)   (1,778)   Interest income   (3,229)   (859)   (4,077)   (1,778)   Interest income   (3,229)   (859)   (4,077)   (1,778)   Interest income   (3,057)   (76)   (6,512)   (356)   Income Tax Expense (Benefit)   (978)   (365)   (1,788)   218   Income Tax Expense (Benefit)   (978)   (411)   (4,724)   138   Income Tax Expense (Benefit)   (1,78)			1/1		//		(2,437)		2,123
Interest income			(0.000)		(0. <b>7</b> 6)				
Earnings (Loss) from Continuing Operations before Income Taxes       (3,057)       (776)       (6,512)       356         Income Tax Expense (Benefit)       (978)       (365)       (1,788)       218         Earnings (Loss) from Continuing Operations       (2,079)       (411)       (4,724)       138         Earnings (Loss) from Discontinued Operations       314       (113)       190       (166)         Net Loss       \$ (1,765)       \$ (524)       \$ (4,534)       \$ (28)         Earnings (Loss) Per Share:       Continuing Operations:       Social Soci									
Income Tax Expense (Benefit)	Interest income		1		6		2		9
Income Tax Expense (Benefit)									
Earnings (Loss) from Continuing Operations       (2,079)       (411)       (4,724)       138         Earnings (Loss) from Discontinued Operations       314       (113)       190       (166)         Net Loss       \$ (1,765)       \$ (524)       \$ (4,534)       \$ (28)         Earnings (Loss) Per Share:       Continuing Operations:         Basic       \$ (0.26)       \$ (0.05)       \$ (0.58)       \$ 0.02         Diluted       \$ (0.26)       \$ (0.01)       \$ 0.02       \$ (0.02)         Diluted       \$ 0.04       \$ (0.01)       \$ 0.02       \$ (0.02)         Net Loss:       Basic       \$ (0.22)       \$ (0.07)       \$ (0.56)       \$ (0.00)									356
Earnings (Loss) from Discontinued Operations       314       (113)       190       (166)         Net Loss       \$ (1,765)       \$ (524)       \$ (4,534)       \$ (28)         Earnings (Loss) Per Share:       Continuing Operations:         Basic       \$ (0.26)       \$ (0.05)       \$ (0.58)       \$ 0.02         Diluted       \$ (0.26)       \$ (0.05)       \$ (0.58)       \$ 0.02         Discontinued Operations:       \$ (0.04)       \$ (0.01)       \$ 0.02       \$ (0.02)         Diluted       \$ 0.04       \$ (0.01)       \$ 0.02       \$ (0.02)         Net Loss:       \$ (0.22)       \$ (0.07)       \$ (0.56)       \$ (0.00)	Income Tax Expense (Benefit)		(978)		(365)		(1,788)		218
Earnings (Loss) from Discontinued Operations       314       (113)       190       (166)         Net Loss       \$ (1,765)       \$ (524)       \$ (4,534)       \$ (28)         Earnings (Loss) Per Share:       Continuing Operations:         Basic       \$ (0.26)       \$ (0.05)       \$ (0.58)       \$ 0.02         Diluted       \$ (0.26)       \$ (0.05)       \$ (0.58)       \$ 0.02         Discontinued Operations:       \$ (0.04)       \$ (0.01)       \$ 0.02       \$ (0.02)         Diluted       \$ 0.04       \$ (0.01)       \$ 0.02       \$ (0.02)         Net Loss:       \$ (0.22)       \$ (0.07)       \$ (0.56)       \$ (0.00)									
Net Loss       \$ (1,765)       \$ (524)       \$ (4,534)       \$ (28)         Earnings (Loss) Per Share:       Continuing Operations:         Basic       \$ (0.26)       \$ (0.05)       \$ (0.58)       \$ 0.02         Diluted       Discontinued Operations:         Basic       \$ 0.04       \$ (0.01)       \$ 0.02       \$ (0.02)         Diluted       \$ 0.04       \$ (0.01)       \$ 0.02       \$ (0.02)         Net Loss:         Basic       \$ (0.22)       \$ (0.07)       \$ (0.56)       \$ (0.00)	Earnings (Loss) from Continuing Operations		(2,079)		(411)		(4,724)		138
Earnings (Loss) Per Share:  Continuing Operations: Basic \$ (0.26) \$ (0.05) \$ (0.58) \$ 0.02  Diluted \$ (0.26) \$ (0.05) \$ (0.58) \$ 0.02  Discontinued Operations: Basic \$ 0.04 \$ (0.01) \$ 0.02 \$ (0.02)  Diluted \$ 0.04 \$ (0.01) \$ 0.02 \$ (0.02)  Net Loss: Basic \$ (0.22) \$ (0.07) \$ (0.56) \$ (0.00)	Earnings (Loss) from Discontinued Operations		314		(113)		190		(166)
Earnings (Loss) Per Share:  Continuing Operations: Basic \$ (0.26) \$ (0.05) \$ (0.58) \$ 0.02  Diluted \$ (0.26) \$ (0.05) \$ (0.58) \$ 0.02  Discontinued Operations: Basic \$ 0.04 \$ (0.01) \$ 0.02 \$ (0.02)  Diluted \$ 0.04 \$ (0.01) \$ 0.02 \$ (0.02)  Net Loss: Basic \$ (0.22) \$ (0.07) \$ (0.56) \$ (0.00)									
Continuing Operations: Basic \$ (0.26) \$ (0.05) \$ (0.58) \$ 0.02  Diluted \$ (0.26) \$ (0.05) \$ (0.58) \$ 0.02  Discontinued Operations: Basic \$ 0.04 \$ (0.01) \$ 0.02 \$ (0.02)  Diluted \$ 0.04 \$ (0.01) \$ 0.02 \$ (0.02)  Net Loss: Basic \$ (0.22) \$ (0.07) \$ (0.56) \$ (0.00)	Net Loss	\$	(1,765)	\$	(524)	\$	(4,534)	\$	(28)
Continuing Operations: Basic \$ (0.26) \$ (0.05) \$ (0.58) \$ 0.02  Diluted \$ (0.26) \$ (0.05) \$ (0.58) \$ 0.02  Discontinued Operations: Basic \$ 0.04 \$ (0.01) \$ 0.02 \$ (0.02)  Diluted \$ 0.04 \$ (0.01) \$ 0.02 \$ (0.02)  Net Loss: Basic \$ (0.22) \$ (0.07) \$ (0.56) \$ (0.00)									
Continuing Operations: Basic \$ (0.26) \$ (0.05) \$ (0.58) \$ 0.02  Diluted \$ (0.26) \$ (0.05) \$ (0.58) \$ 0.02  Discontinued Operations: Basic \$ 0.04 \$ (0.01) \$ 0.02 \$ (0.02)  Diluted \$ 0.04 \$ (0.01) \$ 0.02 \$ (0.02)  Net Loss: Basic \$ (0.22) \$ (0.07) \$ (0.56) \$ (0.00)									
Basic       \$ (0.26)       \$ (0.05)       \$ (0.58)       \$ 0.02         Diluted       \$ (0.26)       \$ (0.05)       \$ (0.58)       \$ 0.02         Discontinued Operations:       \$ 0.04       \$ (0.01)       \$ 0.02       \$ (0.02)         Diluted       \$ 0.04       \$ (0.01)       \$ 0.02       \$ (0.02)         Net Loss:       Basic       \$ (0.22)       \$ (0.07)       \$ (0.56)       \$ (0.00)									
Diluted       \$ (0.26)       \$ (0.05)       \$ (0.58)       \$ 0.02         Discontinued Operations:       Basic         Basic       \$ 0.04       \$ (0.01)       \$ 0.02       \$ (0.02)         Diluted       \$ 0.04       \$ (0.01)       \$ 0.02       \$ (0.02)         Net Loss:       Basic       \$ (0.22)       \$ (0.07)       \$ (0.56)       \$ (0.00)		¢	(0.26)	¢	(0.05)	¢	(0.59)	Ф	0.02
Discontinued Operations:  Basic \$ 0.04 \$ (0.01) \$ 0.02 \$ (0.02)  Diluted \$ 0.04 \$ (0.01) \$ 0.02 \$ (0.02)  Net Loss:  Basic \$ (0.22) \$ (0.07) \$ (0.56) \$ (0.00)	Basic	Ф	(0.20)	Ф	(0.03)	ф	(0.56)	Ф	0.02
Discontinued Operations:  Basic \$ 0.04 \$ (0.01) \$ 0.02 \$ (0.02)  Diluted \$ 0.04 \$ (0.01) \$ 0.02 \$ (0.02)  Net Loss:  Basic \$ (0.22) \$ (0.07) \$ (0.56) \$ (0.00)	Dil.4. J	¢	(0.26)	¢.	(0.05)	¢	(0.50)	¢	0.02
Basic       \$ 0.04       \$ (0.01)       \$ 0.02       \$ (0.02)         Diluted       \$ 0.04       \$ (0.01)       \$ 0.02       \$ (0.02)         Net Loss:       Basic       \$ (0.22)       \$ (0.07)       \$ (0.56)       \$ (0.00)	Diluted	3	(0.26)	\$	(0.05)	3	(0.58)	\$	0.02
Basic       \$ 0.04       \$ (0.01)       \$ 0.02       \$ (0.02)         Diluted       \$ 0.04       \$ (0.01)       \$ 0.02       \$ (0.02)         Net Loss:       Basic       \$ (0.22)       \$ (0.07)       \$ (0.56)       \$ (0.00)									
Basic       \$ 0.04       \$ (0.01)       \$ 0.02       \$ (0.02)         Diluted       \$ 0.04       \$ (0.01)       \$ 0.02       \$ (0.02)         Net Loss:       Basic       \$ (0.22)       \$ (0.07)       \$ (0.56)       \$ (0.00)	Discontinued Operations:								
Diluted \$ 0.04 \$ (0.01) \$ 0.02 \$ (0.02)  Net Loss: Basic \$ (0.22) \$ (0.07) \$ (0.56) \$ (0.00)		\$	0.04	\$	(0.01)	\$	0.02	\$	(0.02)
Net Loss: Basic \$ (0.22) \$ (0.07) \$ (0.56) \$ (0.00)									, ,
Net Loss: Basic \$ (0.22) \$ (0.07) \$ (0.56) \$ (0.00)	Diluted	\$	0.04	\$	(0.01)	\$	0.02	\$	(0.02)
Basic \$ (0.22) \$ (0.07) \$ (0.56) \$ (0.00)		-		-	(0.02)	_		-	(010_)
Basic \$ (0.22) \$ (0.07) \$ (0.56) \$ (0.00)									
Diluted \$ (0.22) \$ (0.07) \$ (0.56) \$ (0.00)	Basic	\$	(0.22)	\$	(0.07)	\$	(0.56)	\$	(0.00)
Diluted \$ (0.22) \$ (0.07) \$ (0.56) \$ (0.00)									
	Diluted	\$	(0.22)	\$	(0.07)	\$	(0.56)	\$	(0.00)

Weighted-Average Common Shares Outstanding:				
Basic	8,082	8,050	8,081	8,050
Diluted	8,082	8,050	8,081	8,069

See notes to condensed consolidated financial statements.

### SUNLINK HEALTH SYSTEMS, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

	SIX MONTH DECEMI 2010	
Net Cash Provided By (Used In) Operating Activities	\$ (1,360)	\$ 39
Cash Flows From Investing Activities:		2 200
Proceeds from sale of Home Health businesses  Expenditures for property, plant and equipment	(869)	3,300 (1,337)
	(00)	(-,,
Net Cash Provided by (Used in) Investing Activities	(869)	1,963
Cash Flows From Financing Activities:		
Revolving advances, net	2,800	(2,100)
Payments on long-term debt	(1,052)	(1,060)
Proceeds from issuance of common shares under stock option plans	8	-
Net Cash Provided by (Used in) Financing Activities	1,756	(3,160)
Net Decrease in Cash and Cash Equivalents	(473)	