

**IN THE UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF TEXAS
HOUSTON DIVISION**

IN RE:

DYNACQ HEALTHCARE, INC., *et al.*

Debtors.¹

Chapter 11

Case No. 25-90798 (ARP)

(Jointly Administered)

**DECLARATION OF DR. ERIC CHAN IN SUPPORT OF
THE DEBTORS' CHAPTER 11 PETITIONS AND FIRST DAY MOTIONS**

Pursuant to 28 U.S.C. § 1746, I, Dr. Eric Chan, hereby submits this declaration (this “**Declaration**”) under penalty of perjury:

1. I am the President and Chief Executive Officer of Dynacq Healthcare, Inc., (“**Dynacq**”) the debtor parent company of the above-captioned debtors and debtors in possession (collectively, the “**Debtors**”) in these Chapter 11 Cases² and I file this Declaration in support of the Debtors’ Chapter 11 Petitions and First Day Motions. I am over the age of 18 and authorized to submit this Declaration on behalf of the Debtors. If called upon to testify, I would testify to the facts set forth herein.

2. I am familiar with the Debtors’ day-to-day operations, financial affairs, and books and records. Except as otherwise indicated herein, all facts set forth in this Declaration are based upon my personal knowledge of the Debtors’ operations, assets, and finances; information supplied to me by other members of Dynacq’s management and its advisors; or my opinions based

¹ The Debtors in these chapter 11 cases, along with the last four digits of each Debtor’s federal tax identification number are: Dynacq Healthcare, Inc. [5477]; Vista Community Medical Center, L.L.P. [0805]; Vista Land & Equipment, L.L.C.[2625]; Doctors Practice Management, Inc. [5545]; Surgery Specialty Clinicians, Inc. [9216]; Vista Hospital of Dallas, L.L.P. [3122]; and, Ambulatory Infusion Therapy Specialists, Inc. [7422].

² Capitalized terms in this paragraph have the meanings ascribed to them herein.

on my experience, knowledge, and information concerning the Debtors’ operations, financial operations,

3. On December 8, 2025 (the “**Petition Date**”), the Debtors filed voluntary petitions for relief (these “**Chapter 11 Cases**”) under Chapter 11, title 11 of the United States Code, 11 U.S.C. §§ 101 *et seq.* (as amended and modified, the “**Bankruptcy Code**”), in the United States Bankruptcy Court for the Southern District of Texas, Houston Division (the “**Court**”).

4. To minimize the adverse effects on their businesses, the Debtors have filed motions seeking various types of “first day” relief (the “**First Day Motions**”) to allow the Debtors to meet their obligations and fulfill their duties as debtors in possession. I am familiar with the contents of each First Day Motion and believe that the relief sought in each is necessary to enable the Debtors to operate in Chapter 11 with minimal disruption or loss of productivity and value. I further believe that the relief sought in each First Day Motion constitutes a critical element in moving towards a successful restructuring of the Debtors’ financial affairs and best serves the Debtors’ estates and creditors’ interests. The facts set forth in each First Day Motion are incorporated herein by reference.

OVERVIEW OF THE COMPANIES

A. Background

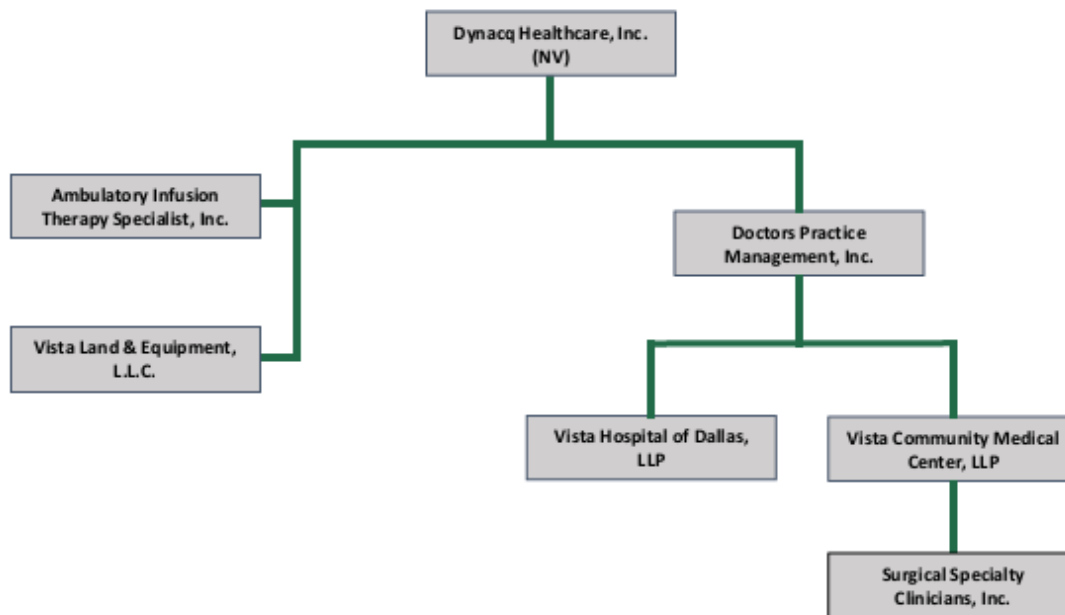
5. Dynacq, founded in 1992, is a holding company that through its subsidiaries owns and manages one general acute care hospital that principally provides specialized surgeries and acute care. The Debtors’ hospital, Surgery Specialty Hospitals of America—Southeast Houston Campus in Pasadena, Texas, near Houston (the “**Pasadena Facility**”), includes operating rooms, pre- and post-operative space, intensive care units, nursing units and diagnostic facilities, as well as adjacent medical office buildings. Except for emergency room patients, surgeries at Dynacq’s

facilities are typically pre-certified or pre-authorized by insurance carriers. The bulk of the surgeries are either covered by workers' compensation insurance or by commercial insurers on an out-of-network health plan basis. The Debtors participate in a small number of managed care contracts. The Debtors also hold a valid physician-owned hospital ("**POH**") license. The POH license is one of approximately 250 remaining in the country and permits physician practices/specialty groups to refer surgeries internally instead of partnering with a hospital, thereby increasing profitability.

6. In the United States, the development of proprietary general acute care hospital networks occurred during the 1970's. During the following 30 years, freestanding outpatient surgery centers, such as the Pasadena Facility, were developed to compete with these general hospitals for outpatient procedures. Freestanding outpatient surgery centers allow physicians to perform outpatient procedures in specialized facilities designed to improve efficiency and enhance patient care.

7. General acute care hospitals specializing in specific complex surgical procedure, like the Pasadena Facility, are designed with the goal of improving both physician and facility efficiency. The surgeries performed are primarily non-emergency procedures that are electively scheduled and, therefore, allow for efficiency available through block time/scheduling. Given the opportunity to utilize multiple operating rooms for pre-determined periods of time, the physicians are able to schedule their time more efficiently and, therefore, increase the number of procedures they can perform within a given amount of time. The facility receives the benefit of consistent staffing patterns and greater facility utilization.

8. Dynacq has several subsidiaries, all of which are located in Texas unless otherwise noted below:



9. As reflected above, Dynacq Healthcare, Inc. (“**DHI**”) owns 100% of the membership interest in Ambulatory Infusion Therapy Specialist (“**AIT**”), Vista Land & Equipment, L.L.C. (“**Vista Land**”), and Doctors Practice Management, Inc. (“**Doctors Practice**”).

10. Doctors Practice owns 100% of Vista Hospital of Dallas, L.L.P. (“**Vista Hospital**”) and Vista Community Medical Center, L.L.P (“**VCM**”). VCM owns 100% of the interest in Surgical Specialty Clinicians, Inc. (“**SSC**”).

11. Dynacq was founded by Chiu Moon Chan under the name Dynacq International, Inc. and later changed its name to Dynacq Healthcare, Inc. in November 2003. Dynacq went public through a reverse merger on March 8, 1993, trading on the OTCMKTS Stock Exchange under the ticker symbol DYII. In 2000, The Dynacq moved to the NASDAQ exchange but was later delisted in October 2012, moving back to the OTCMKTS Stock Exchange before reverting to private status in August 2019.

12. The Debtors’ assets primarily consist of the Pasadena Facility, the underlying real estate (building and land), the medical and office equipment in the Pasadena Facility, and the POH.

13. The Pasadena Facility has eight (8) operating rooms and thirty-seven (37) hospital beds. During its peak, the Pasadena Facility generated over \$138 million in gross revenue. In more recent years, the Hospital generated gross revenues of over \$100 million.

14. VCM is the owner of Pasadena Facility located at 4301 Vista Rd, Pasadena, Texas 77504, located in Harris County, Texas.

15. Vista Land's primary liabilities include rental and lease costs due VCM for usage of the land, building, and medical equipment. In 2025, these costs were approximately \$3.8M.

16. AIT contains essentially no assets and generates no income. Select expenses, such as administrative salaries and FICA taxes, flow through this entity.

17. SSC contains essentially no assets and generates no income. The main expenses incurred at this entity are related to the operators of the Pasadena Facility.

18. Dynacq, through its wholly owned Debtor subsidiaries, owns a 100% interest in the Pasadena Facility, the underlying real estate, and its equipment.

19. In recent years, the Pasadena Facility has been operating at a substantial loss. The Debtors compete in the greater Houston, Texas market with other providers, including major acute care hospitals. These entities may have various competitive advantages over the Company, including their community position, capital resources, physician partnerships and proximity to physician office buildings. The Debtors also encounter competition with other companies for strategic relationships with physicians. There are several large publicly-held companies, and numerous privately-held companies, that acquire and develop freestanding private hospitals and outpatient surgery centers. Many of these competitors have greater financial and other resources than the Debtors. The principal headwinds the Debtors have faced in recent years factors that affect

the Debtors' ability to compete in this market are its lack of financial resources to compete with its larger competitors so that it can maintain relationships with surgeon groups, physicians, and other medical providers.

B. Events Leading to these Chapter 11 Cases

20. The Debtors' bankruptcy cases were precipitated principally by two factors that drained it of the resources necessary to compete in the Houston market: (i) the ongoing costs and exposure due to long running stop-loss litigation, and (ii) the inability to compete with larger, better funded competitors for surgical groups.

i) Stop-Loss Litigation

21. The Debtors have been engaged in litigation in Texas concerning reimbursement for workers' compensation hospital admissions under the former Texas inpatient hospital medical-fee guideline known as the former 28 TEX. ADMIN. CODE § 134.401 ("**Rule 134.401**") (adopted August 1, 1997) which applied to certain inpatient admissions occurring prior to March 1, 2008.

22. With certain exceptions, the 1997 guideline provides that hospitals are to be reimbursed for inpatient admissions under a standard per diem methodology based on the category of admission. The 1997 guideline also specifies two exceptions to the standard per diem reimbursement methodology. These two exceptions apply on a case-by-case basis: (i) the "Trauma-Burn-HIV," or "TBHIV," exception, and (ii) the Stop-Loss Exception.

23. The Debtors sought to apply the Stop-Loss Exception for a large number of inpatient admissions it provided to injured workers, seeking reimbursement at the higher stop-loss rate rather than the standard per diem reimbursement.

24. At issue in the subsequent litigation were three defined terms in the statute:

- "Stop-Loss Payment" was defined as "[a]n independent method of payment for an unusually costly or lengthy stay."

- “Stop-Loss Reimbursement Factor” was defined as “[a] factor established by the Commission to be used as a multiplier to establish a reimbursement amount when the total hospital charges have exceeded specific stop-loss thresholds.”
- “Stop-Loss Threshold” was defined as “[the] Threshold of total charges established by the Commission, beyond which reimbursement is calculated by multiplying the applicable Stop-Loss Reimbursement Factor by the total charges identifying that particular threshold.”

25. In 2001, with health care costs rising, there was a corresponding rise in the number of medical fee disputes between hospitals and insurance carriers. The disputes took the following path:

- Under the labor code, a health care provider dissatisfied with a carrier’s payment could file an administrative dispute with the Division of Worker’s Compensation (the “**Division**”).
- An employ at the Division would review the dispute and determine the appropriate reimbursement due to the provider.
- If either party was dissatisfied with the Division’s decision, they could request a hearing before an Administrative Law Judge (“**ALJ**”) at the State Office of Administrative Hearings (“**SOAH**”).
- Under the labor code, the ALJ issues the final administrative order but either party may seek judicial review of the ALJ’s order in state district court.
- Parties dissatisfied with rulings of the state district court could then appeal it to the Texas court of appeals.

26. Many of these administrative fee disputes (including the Debtors’) concerned the applicability of the Stop-Loss Exception.

- The hospitals argued that the Stop-Loss Exception applied whenever the audited charges for a particular admission exceeded \$40,000. The hospitals thus urged that whenever the audited charges for a particular admission exceeded \$40,000, reimbursement should be paid at 75% of the total audited charges using the Stop-Loss Reimbursement Factor in Rule 134.401.
- The insurance carriers disagreed and argued that reimbursing a hospital admission at 75% of the total audited charges anytime those charges exceeded \$40,000 would produce a windfall for the hospitals and defeat the statutory objective of achieving effective medical cost control. Accordingly, the carriers urged that, in addition to total audited charges exceeding \$40,000, a hospital must prove that an admission involved “unusually costly” and “unusually

extensive” services, before the Stop-Loss Exception applied.

27. Essentially, the hospitals (including the Debtors) argued that it was a one prong test (i.e. do audited charges exceed \$40,000) and the insurance carriers argued that it was a two-pronged test (i.e. do audited charges exceed \$40,000 AND was it “unusually costly” or “unusually extensive.”

28. The litigation has been ongoing for over 20 years at this point. An general overview of how it has gone:

- The Division issued conflicting opinions on how to apply the Stop-Loss Exception, some applying the one-prong and some applying the two-prong.
- For the cases then appealed to the SOAH, the first SOAH decisions issued in 2001 applied the two-pronged test.
- Subsequently, SOAH and ALJs issued conflicting decisions, some applying the one-prong, others the two-prong.

29. In 2004, the new Director of the Division ordered a halt in the issuance of decisions on the proper interpretation and application of the Stop-Loss Exception, so that he could investigate the issue. In 2005, the Director issued a report (the “**2005 Report**”) resolving the issue in favor of the two-prong test. Between February 2005 and June 2006, the Division applied the two-prong test in almost 1,500 disputes. Many of these disputes (including the Debtors’), were appealed to the state district court.

30. After the 2005 Report was issued, the SOAH began consolidating these disputes into one docket for consideration of threshold legal issues. In January 2007, an *en banc* panel of ALJs rejected the 2005 Report and held that the Stop-Loss Exception applied in any case in which total audited charges exceeded \$40,000, and that the dollar amount threshold was the only prerequisite. Following this ruling, SOAH ALJs ordered numerous reimbursements (including those to the Debtors) at 75% of audited charges. Most carriers paid under protest and appealed to

the state district courts.

31. On appeal of a Debtor related fee dispute, a Texas state district court entered a judgment in favor of the Debtors, adopting the single-prong test. This judgment was then appealed to the Texas court of appeals who in 2008 reversed the trial court and determined that the two-prong test was the correct interpretation and remanded all of the disputes back to the Division. This created a right to refund of the reimbursement payments the carriers made under protest if the disputes were resolved in the carriers' favor.

32. Additional litigation ensued for each of the disputes. In 2013, the Texas court of appeals held that reimbursements to the carriers could not be ordered until the underlying fee reimbursement issue on remand was decided. The Division ultimately ruled in many of the Debtors' disputes that the carriers were entitled to reimbursements. The Debtors then appealed those decisions. These appeals were then subsequently consolidated into a single docket. This appeal was scheduled to be heard in early November 2025, but has subsequently been continued to a later date.

33. The costs of engaging in this litigation for 20 years has resulted in uncertainty and mounting costs that drained the Debtors' already insufficient resources. If the Debtors won on appeal, the litigation would have likely continued in some other form, keeping the Debtors in an expensive limbo. If the Debtors lost on appeal, it would then potentially have to engage in litigation on a case by case basis for each of the underlying claims that would necessarily be factually intensive and require expert testimony. The costs to engage in such litigation is prohibitive for the Debtors. The Debtors seek to address those claims in these Chapter 11 Cases and provide some finality. It can then distribute any available funds pro-rata to its unsecured creditors, including the insurance carrier litigants.

ii) Competition for Surgical Groups

34. The Pasadena Facility provides a venue for surgical groups to utilize the operating rooms and hospital beds for pre-planned surgeries. The Debtors would historically enter into agreements with these surgical groups, who would then perform the procedures at the Pasadena Facility. Large surgical groups could conduct hundreds of procedures a month at the Pasadena Facility, resulting in a mutually beneficial relationship between the Debtors and those groups.

35. As noted above, the Houston market that the Debtors compete in is very competitive, and the Debtors do not have the financial resources to compete with its larger competitors for the services of these surgical groups.

36. In the spring of 2025, a large surgical group left the Pasadena Facility and entered into an arrangement with a different venue. The loss of this revenue was catastrophic for the Debtors, who were already losing money, even with the large surgical group. The Pasadena Facility continued to operate at a substantial loss following this exit and I was primarily responsible for providing the necessary capital to cover these operating shortfalls. Without the resources to compete with the Debtors' larger, better funded, competitors, and ever-mounting losses, I pushed forward with evaluating options to monetize the Debtors' assets for the benefit of its stakeholders.

37. Over the last five (5) years, the Debtors have explored options for selling the Pasadena Facility. There have been various interested parties who have engaged with the Debtors on a potential purchase. For various reasons, none of those potential purchasers were able to consummate the purchase of the Pasadena Facility. The Debtors are pursuing these Chapter 11 Cases to run a sophisticated marketing and sales process to monetize the Debtors assets and preserve the value of its estates.

38. In the lead up to the filing of these Chapter 11 Cases, the Debtors were dealt another

blow, when the Pasadena Facility was vandalized in the middle of the night, and the thieves ripped out and stole the copper wiring out of the Pasadena Facility, causing the Pasadena Facility to lose power. There were no patients in the facility at the time of the vandalism. The Debtors have worked diligently with its insurance company to engage contractors to repair the damage caused by the vandals so that the hospital can resume hosting surgical operations. As discussed below, the Debtors require the DIP Financing to fund these repairs and seek reimbursements from its insurance carrier. During this interim period, the Debtors removed all controlled substances from the premises and have security in place 24 hours a day. Until the Debtors have restored power and addressed the other damages, it will not host patients.

C. This Chapter 11 Case

39. On December 8, 2025 (the “**Petition Date**”) the Debtors initiated these cases by filing voluntary petitions for relief under chapter 11 (these “**Chapter 11 Cases**”) of title 11 of the United States Code (the “**Bankruptcy Code**”). As of the date of this Declaration, the Debtors are operating in these Chapter 11 Cases, and no committees have been appointed or designated.

40. On or promptly after the Petition Date, the Debtors intend to file certain motions seeking expedited relief necessary for the efficient transition of the Debtors into bankruptcy (collectively, the “**First Day Motions**”). Below is an overview of certain First Day Motions which remain pending as of the filing of this Declaration. The requests for relief in the First Day Motions all relate primarily to the Debtors’ desire to maintain the continuity of operations and ease the transition of their healthcare facilities into these Chapter 11 Cases.

- i) **Emergency Motion for Entry of an Order (I) Authorizing Debtors to (A) File a Consolidated Creditor Matrix and a Consolidated List of 30 Largest Unsecured Creditors and (B) Redact Certain Personal Identification Information and (II) Approving Form and Manner of Notifying Creditors of Commencement of**

Chapter 11 Cases and Other Information (the “Consolidated Creditor Matrix Motion”)

41. In the Consolidated Creditor Matrix Motion [Docket No. 7], the Debtors seek entry of an order (i) authorizing the Debtors to (a) file a consolidated creditor matrix (the “Consolidated Creditor Matrix”) and a consolidated list of the Debtors’ thirty (30) largest unsecured creditors (the “**Consolidated Top 30 Creditors List**”) and (b) redact certain personal identification information of the Debtors’ individual creditors; and (ii) approving the form and manner of notifying creditors of the commencement of the Chapter 11 Cases and other information.

42. Bankruptcy Rule 1007(a)(1) requires that each debtor file a creditor matrix. The Debtors seek authority to file one Consolidated Creditor Matrix for all Debtors. The Debtors believe that preparation of separate creditor lists for each Debtor would be expensive, time consuming, and unduly burdensome. Further, the Complex Case Procedures permits this relief.

43. The Debtors further request that cause exists to redact the individual creditors’ personal identifying information, including home addresses from the Consolidated Creditor Matrix. In particular, the Debtor seeks to ensure that the Debtors are not exposed to potential civil liability and significant financial penalties. In addition, such information could be used by third parties, among other things, to perpetrate identity theft or locate survivors of domestic violence or stalking who have otherwise taken steps to conceal their whereabouts. The Debtors propose to provide an unredacted version of the Consolidated Creditor Matrix and any other redacted, applicable filings to this Court, the U.S. Trustee, counsel to any statutory committee appointed in these Chapter 11 Cases, and other parties in interest upon reasonable request (email being sufficient) to the Debtors or this Court that is reasonably related to these Chapter 11 Cases. The Debtors will provide, upon request unredacted versions of the Consolidated Creditor Matrix to the Court, the Office of the United States Trustee for the Southern District of Texas (the “U.S.

Trustee”), and counsel to any official committee appointed in the Chapter 11 Cases.

44. The Debtors believe that using the Claims Agent to promptly provide notices to all applicable parties will maximize efficiency in administering these Chapter 11 Cases and will ease administrative burdens that would otherwise fall upon the Court and the U.S. Trustee. Additionally, the Claims Agent will assist the Debtors in preparing creditor lists and mailing initial notices, and, therefore, it is more efficient to authorize the Claims Agent to mail the notice of commencement of these Chapter 11 Cases. Coordinating the mailing of notice of any bar date and the Notice of Commencement through a single source, the Claims Agent, will reduce the opportunities for the dissemination of conflicting or confusing information to parties in interest. Accordingly, the Claims Agent should undertake such mailings.

ii) Debtors’ Emergency Motion For Entry Of An Order Extending The Time To File (I) Schedules of Assets and Liabilities, (II) Schedules of Current Income and Expenditures, (III) Schedules of Executory Contracts and Unexpired Leases, and (IV) Statements of Financial Affairs (“Schedules Motion”)

45. In the Schedules Motion [Docket No. 8], the Debtors seek entry of an order: (i) extending the deadline by which the Debtors must file their schedules of assets and liabilities, schedules of current income and expenditures, schedules of executory contracts and unexpired leases, and statements of financial affairs (collectively, the “**Schedules and Statements**”) by an additional thirty-one (31) days, for a total of twenty-four (45) days from the Petition Date, through and including January 22, 2026.

46. With the assistance of Stout Risius Ross, LLC (“**Stout**”), the Debtors have spent considerable time and effort to collect, review, and assemble copious amounts of information in addition to attending to the daily demands of the chapter 11 process. In the days leading up to the Petition Date, the Debtors focused primarily on preparing for these Chapter 11 Cases, including negotiating with certain creditors, parties-in-interest, and insurance companies, and thus the

Debtors' management and professionals were not in a position to complete the Schedules and Statements as of the Petition Date. Post-petition, the substantial amount of work entailed in completing the Schedules and Statements will be directly competing with the demands upon the Debtors' personnel to address critical operational matters during the initial post-petition period.

47. An extension of time to file Schedules and Statements will assist the Debtors in efficiently preparing accurate Schedules and Statements. The nature of the Debtors' business dictates a need for additional time to ensure that creditors, and their respective claim amounts, are completely and accurately listed. Consequently, the Debtors need additional time to receive prepetition invoices, review all relevant materials related to their assets and liabilities, and prepare the Schedules and Statements.

48. In view of the amount of information that must be assembled and compiled, and the limited time available to do so, I believe that ample cause exists for the requested extension.

Pursuant to 28 U.S.C. § 1746, I declare under penalty of perjury that the foregoing is true and correct to the best of my knowledge, information, and belief.

Dated: December 15, 2025

By: /s/ Dr. Eric Chan
Dr. Eric Chan
Chief Executive Officer and President
Dynacq Healthcare, Inc., *et al*