

## **SUPPLEMENT TO PROXY STATEMENT**

On January 5, 2010, Dynacq Healthcare, Inc. was notified of the death of Mr. Earl R. Votaw, a director and nominee for re-election to the Board of Directors of the Company. Mr. Votaw was an important member of our Board of Directors, and we all will miss the valuable guidance he provided to the Company.

The Board of Directors decided on January 7, 2010 not to fill the vacancy in the Board created by the death of Mr. Votaw, but to reduce the size of the Board to six persons. As a result, all votes cast by shareholders, in person or by proxy, in the election of Mr. Votaw at the 2010 Annual Meeting of Shareholders will not be counted, and no nominations for election to the Board seat previously held by Mr. Votaw will be accepted at the meeting.

Because Mr. Votaw's death occurred immediately prior to the mailing of these proxy materials and because the Company felt it was important to provide the information contained in the Proxy Statement and Annual Report to its shareholders in a timely manner, the proxy materials have not been changed to reflect these events.

January 8, 2010



**DYNACQ HEALTHCARE, INC.**  
**10304 Interstate 10 East, Suite 369**  
**Houston, Texas 77029**

January 8, 2010

To Our Shareholders:

You are cordially invited to attend the 2010 Annual Meeting of Shareholders of Dynacq Healthcare, Inc., which will be held on February 15, 2010, beginning at 10:00 a.m. Central Standard Time, at 10304 Interstate 10 East, Suite 369, Houston, Texas 77029.

Information about the 2010 Annual Meeting, including matters on which shareholders will act, may be found in the Notice of Annual Meeting and Proxy Statement accompanying this letter. We look forward to greeting in person as many of our shareholders as possible.

It is important that your shares be represented and voted at the meeting. Whether or not you plan to attend the 2010 Annual Meeting, please complete, sign, date, and promptly return the accompanying proxy in the enclosed envelope. Returning the proxy does NOT deprive you of your right to attend the 2010 Annual Meeting. If you decide to attend the 2010 Annual Meeting and wish to change your proxy vote, you may do so automatically by voting in person at the meeting.

We look forward to seeing you at the meeting!

Sincerely yours,

/s/ Chiu M. Chan

Chiu M. Chan  
Chief Executive Officer and President



**DYNACQ HEALTHCARE, INC.**

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**NOTICE OF ANNUAL MEETING OF SHAREHOLDERS**

**February 15, 2010**

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The 2010 Annual Meeting of the Shareholders of Dynacq Healthcare, Inc. (the "Company") will be held on February 15, 2010, at 10 a.m. Central Standard Time, at the Company's executive offices located at 10304 Interstate 10 East, Suite 369, Houston, Texas 77029 for the following purposes:

1. To elect directors to the Board of Directors to serve until our next annual meeting of shareholders or until their respective successors are elected and qualified.
2. To ratify the appointment of Killman, Murrell & Company, P.C. as independent auditors for the Company for the fiscal year ending August 31, 2010.
3. To transact such other business as may properly come before the meeting and any adjournments.

The foregoing items of business are more fully described in the Proxy Statement accompanying this Notice. Our Board of Directors is not aware of any other proposals for the 2010 Annual Meeting.

All shareholders of record at the close of business on December 28, 2009, are entitled to notice of and to vote at the meeting or any adjournment. At least a majority of the outstanding shares of the Company are required to be present at the meeting or represented by proxy to constitute a quorum.

By Order of the Board of Directors,

/s/ Chiu M. Chan

Chiu M. Chan  
Chairman of the Board, Chief Executive Officer and  
President

Houston, Texas  
January 8, 2010

**YOUR VOTE IS IMPORTANT**

**TO ASSURE YOUR REPRESENTATION AT THE MEETING, PLEASE SIGN, DATE AND RETURN YOUR PROXY AS PROMPTLY AS POSSIBLE. AN ENVELOPE, WHICH REQUIRES NO POSTAGE IF MAILED IN THE UNITED STATES, IS ENCLOSED FOR THIS PURPOSE.**



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## DYNACQ HEALTHCARE, INC.

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### PROXY STATEMENT

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This proxy statement is furnished to shareholders of Dynacq Healthcare, Inc., a Nevada corporation (the “Company”), in connection with the solicitation of proxies on behalf of the Board of Directors of the Company to be voted at the 2010 Annual Meeting of Shareholders of the Company (the “2010 Annual Meeting”), to be held at the Company’s executive offices located at 10304 Interstate 10 East, Suite 369, Houston, Texas 77029, on the 15<sup>th</sup> day of February, 2010, at 10:00 a.m. Central Standard Time, and at any and all adjournments. Shareholders of record at the close of business on December 28, 2009 will be entitled to notice of and to vote at the meeting and at all adjournments.

When a properly executed proxy is received prior to the meeting, the shares represented will be voted at the meeting in accordance with the directions noted. A proxy may be revoked at any time before it is exercised by submitting a written revocation or a later-dated proxy to the Secretary of the Company at the mailing address of the Company provided below, or by attending the meeting in person and so notifying the inspector of elections.

Management does not intend to present any business for a vote at the meeting, other than the election of directors and the ratification of the appointment of the independent auditors. Unless shareholders specify otherwise in their proxies, proxies will be voted FOR the election of director nominees listed in this proxy statement and FOR the ratification of the appointment of the independent auditors. If other matters requiring the vote of shareholders properly come before the meeting, it is the intention of the persons named in the enclosed proxy card to vote proxies held by them in accordance with their judgment on such matters.

The complete mailing address of the Company’s executive offices is Dynacq Healthcare, Inc., 10304 Interstate 10 East, Suite 369, Houston, Texas 77029. To obtain directions to be able to attend the meeting and vote in person, please visit our Company’s website at <http://www.dynacq.com/contactus.htm>. The approximate date on which this proxy statement and the accompanying proxy card were first sent or given to the shareholders of the Company is January 8, 2010.

#### **Important Notice Regarding the Availability of Proxy Materials for the 2010 Annual Meeting to be held on February 15, 2010:**

**This Notice of Meeting and the Proxy Statement to security holders are available on the Company’s website at <http://www.dynacq.com/proxy.cfm> and the Annual Report to security holders is available on the Company’s website at [http://www.dynacq.com/sec\\_filings\\_all.cfm](http://www.dynacq.com/sec_filings_all.cfm).**

### VOTING SECURITIES

On December 28, 2009, the record date, there were outstanding and entitled to vote 15,220,087 shares of the common stock of the Company, held of record by approximately 471 persons. Shareholders are entitled to one vote, exercisable in person or by proxy, for each share of common stock held on the record date. Cumulative voting is not permitted under the Company’s Certificate of Incorporation or Bylaws.

### PROPOSAL 1: ELECTION OF DIRECTORS

The persons whose names are set forth as proxies in the enclosed proxy card will vote all shares over which they have discretionary authority “FOR” the election of the nominees named below unless otherwise directed. Although the Board of Directors of the Company does not anticipate that any of the nominees will be unable to serve, if such a situation should arise prior to the meeting, the appointed proxies will use their discretionary authority pursuant to the proxy and vote in accordance with their best judgment.

The Board of Directors recommends a vote FOR each of the nominees named below. The affirmative vote of holders of a plurality of the shares of common stock present in person or represented by proxy and entitled to vote at the 2010 Annual Meeting is required to elect each director nominee. Each director will be elected for a one-year term or until his or her successor has been elected and qualified.

The following table sets forth, for each nominee for election as a director, his or her name, principal occupation, age and the year in which he or she first became a director of the Company. The nominees have consented to be named in this proxy statement and to serve as directors, if elected.

<u>Name</u>	<u>Principal Occupation</u>	<u>Age</u>	<u>Director Since</u>
Chiu M. Chan	Mr. Chiu Chan has served as our president and chief executive officer since July 1992. Mr. Chan is a registered pharmacist and during the period from May 1978 to July 1992 was employed by various healthcare service organizations in Houston, Texas. Mr. Chan earned a Bachelor of Science degree in Pharmacy from the University of Houston. Mr. Chiu M. Chan is not related to Mr. Philip S. Chan.	57	1992
Philip S. Chan	Mr. Philip Chan has served as our vice president of finance, chief financial officer, and treasurer since July 1992. Mr. Chan earned advanced accounting degrees from the University of Houston and is a certified public accountant in the State of Texas. Mr. Philip S. Chan is not related to Mr. Chiu M. Chan.	58	1992
Stephen L. Huber	Mr. Huber is a registered pharmacist and earned a Bachelor of Science degree in Pharmacy and a Masters of Science in Hospital Pharmacy, both from the University of Houston. From 1991 to 1999, Mr. Huber served as the Deputy Division Head for patient care services at the University of Texas M.D. Anderson Cancer Center. In 1999, Mr. Huber joined Cortex Communications, Inc., a medical education company, as president and chief operating officer. In 2001, Mr. Huber joined Medicus International, now known as Publicis Healthcare Communications Group, a global medical communications company, as its senior vice president and president of Medical and Scientific Affairs. Mr. Huber continues to serve as a research consultant to M.D. Anderson Cancer Center.	59	1992
Earl R. Votaw	Mr. Votaw earned a Bachelor of Arts degree from the University of the Americas in Mexico City and a certificate of graduation from the Graduate School of Mortgage Banking from Northwestern University of Chicago. Prior to his retirement in December 1993, Mr. Votaw served as a director and as the president and chief executive officer of Capital Bank, a Texas chartered bank located in Houston, Texas, where he continues to serve as a director.	82	1992
Ping S. Chu, M.D.	Dr. Chu received his Ph.D. degree in chemistry from Massachusetts Institute of Technology before he attended medical school at the University of Miami, Florida. Dr. Chu finished his oncology training at M.D. Anderson Cancer Center	58	2002

<u>Name</u>	<u>Principal Occupation</u>	<u>Age</u>	<u>Director Since</u>
	in 1989 and has been in solo private practice since completion. Dr. Chu is board certified in internal medicine and medical oncology.		
James G. Gerace	Mr. Gerace received his degree in Business Administration with a major in accounting from Texas A & M University in 1961. He is a Certified Public Accountant and mediator with professional experience at public accounting firms, performing audits, tax planning and related services. He has served on the Board of Directors of several banks and savings and loan associations and has maintained his own CPA firm for approximately the last 39 years.	72	2004
Xiao H. Li, M.D.	Dr. Li received her MD degree from Sun Yat-Sen University of Medical Science in Canton, China in 1984. She finished her internal medicine training at the Lutheran Medical Center in Brooklyn, NY in 1998. Dr. Li practiced as an internist at Space Center Family Practice for one year before joining the Company's Pasadena facility as an Emergency Room physician and hospitalist in 1999. Dr. Li is board certified in internal medicine.	47	2008

## BOARD MEETINGS, COMMITTEES, COMPENSATION AND INDEPENDENCE

### Board Meetings and Committees

During fiscal year 2009, our Board of Directors held 13 meetings and took no action by unanimous consent. For fiscal year 2009, all but one director, Chiu M. Chan, attended at least 75% or more of the aggregate number of meetings held by our Board of Directors and the committees on which he or she served. There were three directors who attended the February 16, 2009 Annual Meeting. Directors are encouraged, but not required, to attend annual meetings of shareholders of the Company.

#### *Audit Committee*

The Audit Committee consisted of Messrs. Gerace and Huber and Dr. Chu for the 2009 fiscal year. Each of the members of the Audit Committee is independent as defined by the NASDAQ Stock Market Listing Rules, has not participated in the preparation of the financial statements of the Company at any time during the past three years, and is able to read and understand fundamental financial statements. The Board has determined that Mr. Gerace, who serves as the Chairman of the Audit Committee, qualifies as an "audit committee financial expert" as defined by the rules promulgated by the Securities and Exchange Commission (the "Commission").

The Audit Committee generally has responsibility for appointing, overseeing, and determining the compensation of our independent certified public accountants, reviewing the plan and scope of the accountant's audit, reviewing our audit and control functions, approving all permitted non-audit services provided by our independent certified public accountants, and reporting to our full Board of Directors regarding all of the foregoing. The Audit Committee meets with the independent certified public accountants and our management in connection with its review and approval of (i) the unaudited financials for inclusion in our quarterly reports and (ii) the annual audited financial statements for inclusion in our Annual Report on Form 10-K. The Audit Committee also provides our Board of Directors with such additional information and material as it may deem necessary to make our Board of Directors aware of significant financial matters that require its attention. Additionally, the Audit Committee considers any related party transactions between the Company or any of its subsidiaries and any director, officer or the majority shareholder of the Company. The Audit Committee's goals and responsibilities are set forth in a written Audit Committee Charter, which is available on our website at [www.dynacq.com](http://www.dynacq.com). The Audit Committee held six meetings and took no actions by unanimous consent during the year ended August 31, 2009. The Audit Committee Report is set forth below.

### ***Compensation Committee***

The Compensation Committee consisted of Messrs. Gerace and Votaw and Dr. Chu for the 2009 fiscal year. Only independent directors serve on the Compensation Committee. The Compensation Committee held four meetings and took no action by unanimous consent during the year ended August 31, 2009. The Compensation Committee's charter is available on our website at [www.dynacq.com](http://www.dynacq.com).

The Compensation Committee has the purpose and direct responsibility to review and approve corporate goals and objectives relevant to the compensation of the Company's chief executive officer, evaluate the chief executive officer's performance in light of those goals and objectives, and determine or recommend to the full Board for determination, the chief executive officer's compensation based on this evaluation. The Compensation Committee also is responsible for determining, or recommending to the full Board for determination, the compensation of all other executive officers of the Company, overseeing the administration of the incentive compensation plans and equity based plans of the Company and approving issuances under those plans.

The Compensation Committee's charter reflects these responsibilities, and the Compensation Committee and the Board periodically review and, if appropriate, revise the charter. In performing its function, the Compensation Committee may review executive compensation surveys and other available information from companies in the same industry, but has not engaged compensation consultants to advise the committee. The Board may direct that certain determinations of the Compensation Committee be submitted to the independent members of the Board for their consideration and approval. At Board meetings, the Chairman of the Compensation Committee reports on the actions and recommendations of that committee, with all discussions of the chief executive officer's compensation occurring without him being present. The Compensation Committee may delegate all or a portion of its duties and responsibilities to a subcommittee consisting of one or more members, but has not yet chosen to do so.

The Company's chief executive officer annually reviews the performance of each of the Named Executive Officers (as hereafter defined) other than himself, and the compensation paid to those individuals during the past fiscal year, and makes recommendations to the Compensation Committee regarding compensation to be paid to those individuals during the next fiscal year. Following a review of these conclusions and recommendations, the Compensation Committee makes compensation decisions for these executives as it deems appropriate. The Compensation Committee meets with the chief executive officer annually to discuss his performance, but ultimately decisions regarding his compensation are made solely by the Compensation Committee based on its deliberations.

### ***Nominations to the Board of Directors***

The Company believes that it is appropriate for the Company not to have a standing nominating committee or committee performing similar functions because it is appropriate for the full board to consider and make such director nominations, with the approval of a majority of the independent directors.

Director nominees may be identified by the Board of Directors through current board members, officers, shareholders or other persons. Any shareholder desiring to submit a nomination to the Board of Directors should send the recommendation in writing, together with appropriate background and contact information, to the Secretary of the Company at the address of the Company's principal executive offices set forth previously. The Board of Directors has not established formal minimum qualifications for a director nominee and evaluates any nominee on a case-by-case basis.

### **Family Relationships**

There are no familial relationships among the executive officers and directors.

## Compensation of Directors

Messrs. Chiu M. Chan and Philip S. Chan, who are the only directors who are not independent, receive compensation only as officers of Dynacq. For fiscal 2009 each of the independent directors was paid a stipend of \$3,000 per month, except that the Chairman of the Audit Committee was paid a stipend of \$4,500 per month, for his or her service to the Board and the committees on which he or she serves.

The following table sets forth certain information regarding the compensation paid to the Company's non-employee directors for their service during the fiscal year ended August 31, 2009.

<u>Name</u>	<u>Fees Earned or Paid in Cash</u>	<u>All Other Compensation</u>	<u>Total</u>
Ping S. Chu	\$36,000	—	\$36,000
James G. Gerace	\$54,000	—	\$54,000
Stephen L. Huber	\$36,000	—	\$36,000
Xiao H. Li	\$36,000	—	\$36,000
Earl R. Votaw	\$36,000	—	\$36,000

## Compensation Committee Interlocks and Insider Participation

The Compensation Committee, which recommends compensation levels for our chief executive officer and is authorized to consider and make grants of options pursuant to any approved stock option plan and to administer such plan, is comprised of Messrs. Gerace and Votaw and Dr. Chu. None of these members have been an officer or employee of Dynacq or any of its subsidiaries. There are no interlocking relationships between members of the Compensation Committee and the compensation committees of other companies' board of directors.

## Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934 (the "Exchange Act") requires our directors, executive officers and the persons who beneficially own more than ten percent of our common stock, to file reports of ownership and changes in ownership with the Commission. Copies of all filed reports are required to be furnished to us. Based solely on the reports received by us and on the representations of the reporting persons, we believe that these persons complied with all applicable filing requirements during the fiscal year ended August 31, 2009.

## Independence and "Controlled Company" Disclosure

Mr. Chiu M. Chan owns or controls 8,398,320 shares of the Company's common stock and, therefore, holds approximately 55% of the Company's voting power as of December 28, 2009. Thus, the Board of Directors has determined that the Company is a "controlled company" within the meaning of Listing Rule 5615(c)(1) for the NASDAQ Stock Market. As a "controlled company," the Company is exempt from certain listing standards of NASDAQ and is thus not required to have (i) a board of directors comprised of a majority of independent directors; (ii) compensation of the executive officers determined by a majority of the independent directors or a compensation committee composed solely of independent directors; and (iii) director nominees selected, or recommended for the Board's selection, either by a majority of the independent directors or a nominating committee composed solely of independent directors. However, the Company is not exempt from the requirements to have an audit committee comprised of at least three independent directors and to hold regularly scheduled executive sessions of its Board of Directors in which only the independent directors are present.

## EXECUTIVE OFFICERS

The Company's executive officers are Mr. Chiu M. Chan, Chief Executive Officer, President, and Chairman of the Board, and Mr. Philip S. Chan, Vice President – Finance and Chief Financial Officer. Throughout this Proxy Statement, these individuals are sometimes referred to collectively as the "Named Executive Officers." Please refer to the director biographies for information regarding Messrs. Chiu Chan and Philip Chan.

## EXECUTIVE COMPENSATION

### Summary Compensation Table

The following table summarizes the compensation of the Named Executive Officers for the past three fiscal years:

Name and Principal Position	Year	Salary (\$)	Bonus (\$)	Option Awards <sup>(1)</sup> (\$)	All Other Compensation <sup>(2)</sup> (\$)	Total (\$)
Chiu M. Chan, Chief Executive Officer	2009	899,992	—	41,478	15,494	956,964
	2008	206,663	800,000	41,478	15,539	1,063,680
	2007	180,000	—	10,369	12,725	203,094
Philip S. Chan, Chief Financial Officer	2009	200,005	300,000	42,503	7,554	550,062
	2008	193,335	500,000	42,503	7,998	743,836
	2007	180,000	—	10,626	1,681	192,307

<sup>(1)</sup> Represents the dollar amount recognized for financial statement reporting purposes for the fiscal years ended August 31, 2009, 2008 and 2007, in accordance with FAS 123(R), without taking into account an estimate of forfeitures of stock option grants. Assumptions used in the calculation of these amounts are included in footnote 9 to the Company's audited financial statements for the fiscal year ended August 31, 2009 included in the Annual Report on Form 10-K. These stock options were awarded to the Named Executive Officers in fiscal 2007.

<sup>(2)</sup> Represents amounts paid by the Company for life insurance premium, employer's contribution to the Company's 401(k) plan and club membership fees.

### Grants of Plan Based Awards

There were no equity or non-equity incentive plan awards to the Named Executive Officers in fiscal year 2009.

### Outstanding Equity Awards at Fiscal Year-End

The following table sets forth certain information regarding equity-based awards held by the Named Executive Officers as of August 31, 2009.

Name	Option Awards				
	Number of Securities Underlying Unexercised Options		Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options	Option Exercise Price	Option Expiration Date
	Exercisable	Unexercisable			
Chiu M. Chan	50,000 <sup>(1)</sup>	50,000 <sup>(1)</sup>	—	\$ 2.75	06/22/13
Philip S. Chan	197,500	—	—	\$ 4.44	12/05/10
	50,000 <sup>(1)</sup>	50,000 <sup>(1)</sup>	—	\$ 2.50	06/22/13

<sup>(1)</sup> Of the 100,000 stock options granted to Mr. Chiu M. Chan and Mr. Philip S. Chan on June 22, 2007, 25% vested on each of June 22, 2008 and 2009, and the balance will vest in two annual installments beginning on June 22, 2010.

### Option Exercises

No stock options were exercised by any of the Named Executive Officers in the fiscal year ended August 31, 2009.

### Potential Payments upon Termination or Change-in-Control

The Named Executive Officers do not have employment agreements with the Company and are all employed on an “at will” basis. The Company does not have arrangements with any of its Named Executive Officers providing for additional benefits or payments in connection with a termination of employment, change in job responsibility or change-in-control. Grants of stock options to all employees eligible to receive such grants under the Company’s 2000 Incentive Plan vest immediately in the event of a change in control; therefore, no separate disclosure is presented herein with respect to the acceleration of stock options held by the Named Executive Officers upon a change of control under the terms of this stock option plan.

### AUDIT COMMITTEE REPORT

For the fiscal year 2009, the Audit Committee operated under a written charter adopted by our Board of Directors. The Audit Committee members’ responsibilities and functions are not intended to duplicate or to certify the activities of management and the independent certified public accountants. The Audit Committee oversees our financial reporting process on behalf of our Board of Directors. Our management has the primary responsibility for the financial statements and reporting process, including our systems of internal controls.

During the fiscal year 2009, at various meetings the Audit Committee met with senior members of the Company’s financial management team, the Audit Committee’s independent counsel and/or our independent certified public accountants to review and discuss the financial statements and to discuss significant accounting issues.

On November 23, 2009, the Audit Committee discussed with our independent certified public accountants and senior management the critical accounting policies of the Company and key estimates used in preparing the audited financial statements for the fiscal year ending August 31, 2009, as well as the quality of the Company’s financial reporting. This included a discussion of the quality, not just the acceptability, of the accounting principles, the reasonableness of significant accounting judgments and estimates, and the clarity of disclosures in the financial

statements. In addressing the quality of management's accounting judgments, members of the Audit Committee reviewed the certifications prepared by the Chief Executive Officer and the Chief Financial Officer that the consolidated financial statements of the Company present fairly, in all material respects, the financial position and results of operations of the Company. The Audit Committee's review also included discussion with the independent auditors of matters required pursuant to the Statement on Auditing Standards No. 61 (Communication with Audit Committees). The Audit Committee, among other things, discussed with Killman, Murrell & Company, P.C. matters relating to its independence, including the written disclosures and letter made available to the Audit Committee as required by the Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committees). On the basis of these reviews and discussions, the Audit Committee recommended to the Board of Directors that the Board approve, and the Board has approved, the inclusion of the Company's audited financial statements in the Company's Annual Report on Form 10-K for the fiscal year ended August 31, 2009 for filing with the Commission.

This report is furnished by the Audit Committee of our Board of Directors.

James G. Gerace  
(Chairman)  
Ping S. Chu  
Stephen L. Huber

The report of the Audit Committee shall not be deemed to be "soliciting material" or to be filed with the Commission, nor shall this information be incorporated by reference by any general statement incorporating by reference this proxy statement into any filing under the Securities Act of 1933, as amended, or the Exchange Act, except to the extent that we specifically incorporate this information by reference, and shall not otherwise be deemed filed under such Acts.

#### **SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT**

The following table sets forth, as of December 1, 2009, information with respect to shares beneficially owned by: (a) each person who is known by us to be the beneficial owner of more than 5% of our outstanding shares of common stock, (b) each of our directors and the named executive officers named in the Summary Compensation Table above, and (c) all current directors and executive officers as a group.

Beneficial ownership is determined in accordance with Rule 13d-3 under the Exchange Act. Under this rule, some shares may be deemed to be beneficially owned by more than one person (if, for example, persons share the power to vote or the power to dispose of the shares). In addition, shares are deemed to be beneficially owned by a person if the person has the right to acquire shares (for example, upon exercise of an option) within sixty days of the date as of which the information is provided. In computing the percentage ownership of any person, the amount of shares is deemed to include the amount of shares beneficially owned by such person by reason of such acquisition rights. As a result, the percentage of outstanding shares of any person as shown in the following table does not necessarily reflect the person's actual voting power at any particular date.

To our knowledge, except as indicated in the footnotes to this table and pursuant to applicable community property laws, the persons named in the table have sole voting and investing power with respect to all shares of common stock shown as beneficially owned by them.



<u>Beneficial Owner<sup>(1)</sup></u>	<u>Number Of Shares</u>	<u>Percent Of Class<sup>(2)</sup></u>
Chiu M. Chan	8,448,320 <sup>(3)</sup>	55.32%
Philip S. Chan	571,589 <sup>(4)</sup>	3.69%
Ping S. Chu	276,973 <sup>(5)</sup>	1.82%
Earl R. Votaw	40,683	*
James G. Gerace	20,000	*
Xiao H. Li	19,533 <sup>(6)</sup>	*
Stephen L. Huber	—	—
All directors and executive officers as a group (7 persons)	9,377,098 <sup>(7)</sup>	60.42%

<sup>(1)</sup> The address for each named person is 10304 Interstate 10 East, Suite 369, Houston, Texas 77029.

<sup>(2)</sup> Based on 15,222,143 shares outstanding as of December 1, 2009.

<sup>(3)</sup> Includes 1,610,205 shares held by Mr. Chan's spouse. Includes 50,000 shares underlying options, which are currently exercisable. Since Mr. Chan has voting power with respect to 55.32% of the Company's outstanding common stock, he controls the outcome of any matter requiring the vote of a majority of the outstanding shares to approve.

<sup>(4)</sup> Includes 247,500 shares underlying options, which are currently exercisable.

<sup>(5)</sup> Includes 404 shares held by each of Dr. Chu's two children.

<sup>(6)</sup> Includes 1,800 shares held by Dr. Li's spouse and 3,700 shares held by each of her two children.

<sup>(7)</sup> Includes 297,500 shares of common stock underlying options, which are currently exercisable.

\* Indicates ownership of less than 1%.

### Securities Authorized For Issuance Under Equity Compensation Plans

The following table provides information as of December 1, 2009, with respect to all of the Company's equity compensation plans under which equity securities are authorized for issuance.

<u>Plan Category</u>	<u>Number of securities to be issued upon exercise of outstanding options, warrants and rights</u>	<u>Weighted average exercise price of outstanding options, warrants and rights</u>	<u>Number of securities remaining available for future issuance (excluding securities reflected in first column)</u>
Plans approved by shareholders	2,368,287	\$ 3.59	1,410,404
Plans not approved by shareholders	—	—	—
Total	<u>2,368,287</u>	<u>\$ 3.59</u>	<u>1,410,404</u>

## PROPOSAL 2: RATIFICATION OF INDEPENDENT AUDITORS

Killman, Murrell & Company, P.C. (“KMC”) audited the Company’s consolidated financial statements for the fiscal year ended August 31, 2009, and has advised the Company that it will have representatives available at the 2010 Annual Meeting to respond to appropriate questions. Such representatives will be permitted to make a statement if they desire to do so. The Company has selected KMC as its independent certified public accountants to audit its fiscal year 2010 consolidated financial statements. The Board of Directors recommends a vote FOR ratification of that selection.

### Audit Fees

The following table presents fees for professional services rendered by the independent registered public accounting firm for the audit of the Company’s annual financial statements, fees for audit-related services, tax services and all other services.

	<u>2009</u>	<u>2008</u>
Audit Fees	\$386,605	\$368,520
Audit Related Fees	—	—
Tax-Related Fees	\$ 29,188	\$ 13,895
All Other Fees	—	—

*Audit Fees* for the fiscal years ended August 31, 2009 and 2008 represent the aggregate fees billed for professional services rendered by KMC for the audit of our annual financial statements and review of financial statements included in our quarterly reports on Form 10-Q or services that are normally provided in connection with statutory and regulatory filings or engagements for those fiscal years.

### Audit-Related Fees

There were no *Audit Related Fees* for the fiscal years ended August 31, 2009 and 2008.

### Tax-Related Fees

*Tax-Related Fees* represents the aggregate fees billed for professional services rendered for the fiscal years ended August 31, 2009 and 2008 by KMC for income tax return preparation and tax compliance.

### All Other Fees

There were no *All Other Fees* for the fiscal years ended August 31, 2009 and 2008.

### Audit Committee Pre-Approval Policies and Procedures

All audit and non-audit services performed by the independent certified public accountants are pre-approved by the Audit Committee, which considers, among other things, the possible effect of the performance of such services on the auditors’ independence. The Audit Committee’s charter provides that the Audit Committee may delegate to any of its members the authority to pre-approve any services performed by the independent certified public accountants, provided that such approval is presented to the Audit Committee at its next scheduled meeting. All of the audit-related, tax and all other services described above were pre-approved by the full Audit Committee.

## PROPOSALS OF SHAREHOLDERS

Proposals of shareholders intended to be presented at the 2011 Annual Meeting of Shareholders must be received by the Secretary of the Company at its principal executive offices by September 10, 2010 to be considered for inclusion in the proxy statement and form of proxy relating to the 2011 Annual Meeting. In order for any shareholder proposal that is not included in such proxy statement and form of proxy to be brought before the 2011 Annual Meeting, such proposal must be received by the Secretary of the Company at its principal executive offices by September 10, 2010.

The Annual Report on Form 10-K of the Company for the year ended August 31, 2009, including audited financial statements, is enclosed with this proxy statement but does not constitute a part of the proxy soliciting material.

### **CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS**

Six members of Mr. Chiu Chan's immediate family (four brothers-in-law and two sisters-in-law) are employed by the Company or its subsidiaries. Such family members received an aggregate of \$498,917 in compensation from the Company or its subsidiaries in fiscal year 2009 and \$494,916 in fiscal year 2008.

Two members of Mr. Philip Chan's immediate family (his sister and a sister-in-law) are employed by the Company or its subsidiaries. Such family members received an aggregate of \$165,288 in compensation from the Company or its subsidiaries in fiscal year 2009 and \$190,687 in fiscal year 2008.

The Company has retained Redwood Health Corporation ("Redwood"), to furnish physicians to provide in-house emergency medical coverage for its Pasadena facility during the weekend hours and weekday nights at an hourly rate of \$75. The son of the Company's Chief Executive Officer is a physician and an affiliate of Redwood. The Company paid \$437,588 and \$437,100 for emergency room physician services to Redwood in fiscal 2009 and 2008, respectively. Management, as well as the Audit Committee that approved the agreement, believes that the hourly rate being paid is consistent with comparable in-house emergency medical coverage rates available in the area.

During the fiscal year 2009, the Company has retained Anesthesia Associates of Houston Metroplex to provide exclusive, continuous and uninterrupted anesthesiology services, including physicians and CRNAs, to the Pasadena facility for a monthly compensation of \$5,000. The son of the Company's Chief Executive Officer is a physician and an affiliate of Anesthesia Associates of Houston Metroplex. The Company paid \$5,000 for anesthesiology services to said organization in fiscal 2009. Management, as well as the Board of Directors that approved the agreement, believes that the rate being paid is consistent with comparable in-house anesthesiology services rates available in the area.

During the fiscal year 2009, the Company has also retained Redwood to locate and recruit additional skilled anesthesiologists and CRNAs for its Pasadena facility for a monthly compensation of \$20,000. The Company paid \$25,000 for said recruitment services to Redwood in fiscal 2009. Management, as well as the Board of Directors that approved the agreement, believes that the rate being paid is consistent with comparable rates for recruitment available in the area. The Company entered into these two agreements in order to replace the previous anesthesiology group, whose contract was in the process of termination at the end of fiscal 2009. The compensation which was being paid to the previous group was substantially the same as that being paid under the new contracts.

The Company leases 7,250 square feet of office space for its executive offices through September 1, 2011 for \$6,525 per month. The lessor of the office space is Capital Bank, of which Mr. Earl Votaw, one of the Company's directors, is a director. Management believes that the lease rate being paid is consistent with comparable commercial rates available in the area.

Dr. Ping Chu, a director, has paid the Company \$15,878 and \$13,088 during fiscal years ended August 31, 2009 and 2008, respectively for rent and management fees. As of August 31, 2009 and 2008, the Company had accounts receivable from Dr. Chu of \$44,445 and \$22,441, respectively. Included in the accounts receivable balance were amounts applicable to Dr. Chu's staffs' payroll for which he reimburses the Company in the ordinary course of business.

Dr. Xiao Li, a director, was paid \$185,675 and \$189,275 to provide in-house medical services to the emergency room patients at the Pasadena facility during the fiscal years ended August 31, 2009 and 2008, respectively. Management, as well as the Board of Directors who approved the agreement, believes that the rate being paid is consistent with comparable in-house emergency medical services available in the area.

For fiscal 2009 there were no transactions, relationships or arrangements with any of the independent directors not disclosed above that were considered by the Board of Directors under the applicable independence definitions in determining that the director was independent.

## **SOLICITATION**

The Company will bear the cost of the solicitation of proxies. In addition to solicitation by mail, certain of the directors, officers or regular employees of the Company may, without extra compensation, solicit the return of proxies by telephone or electronic media. Arrangements will be made with brokerage houses, custodians and other fiduciaries to send proxy material to their principals, and they will be reimbursed by the Company for any out-of-pocket expenses.

## **VOTING PROCEDURES**

A majority of the outstanding shares of common stock present in person or represented by proxy at the 2010 Annual Meeting constitutes a quorum for the transaction of business. If an executed proxy card is returned and the shareholder has explicitly abstained from voting on a proposal, the shares represented by such proxy will be considered present at the annual meeting for purposes of determining a quorum and will count as votes cast on the matter but will not count as votes cast in favor of the proposal. Broker non-votes are counted for purposes of determining whether a quorum exists at the annual meeting but are not counted and have no effect on the results of the vote.

The inspector of elections appointed by the Company will count all votes cast, in person or by submission of a properly executed proxy, before the closing of the polls at the meeting. The affirmative vote of holders of a plurality of the common stock present or represented by proxy at the meeting and entitled to vote is required for the election of each director nominee (Proposal 1), and the affirmative vote of holders of a majority of the common stock present or represented by proxy at the meeting and entitled to vote is required on the ratification of the selection of auditors (Proposal 2) and on all other matters before the meeting. Abstentions and broker non-votes will not be taken into account in determining the outcome of the election of directors, and on all other matters abstentions have the effect of a vote against the proposal and broker non-votes will not be taken into account.

## **OTHER MATTERS**

Shareholders who wish to communicate with the Board of Directors, or with any individual director, may send such communication in writing addressed to the Board of Directors, or to an individual director, at 10304 Interstate 10 East, Suite 369, Houston, Texas 77029. All communications received from shareholders are sent directly to Board members.

The Board knows of no other business to come before the 2010 Annual Meeting. However, if any other matters are properly brought before the 2010 Annual Meeting, the persons named in the accompanying form of proxy or their substitutes will vote in their discretion on those matters.







