

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, DC 20549

**FORM 10-Q**

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

**For the Quarterly Period Ended September 30, 2024**

or

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

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

Commission File Number **000-50009**

**PACIFIC HEALTH CARE ORGANIZATION, INC.**

(Exact name of registrant as specified in its charter)

**Utah**

(State or other jurisdiction of incorporation or organization)

**87-0285238**

(I.R.S. Employer Identification No.)

**19800 MacArthur Boulevard, Suites 306 & 307**

**Irvine, California**

(Address of principal executive offices)

**92612**

(Zip Code)

**(949) 721-8272**

(Registrant's telephone number, including area code)

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

Title of each class

None

Trading symbol

N/A

Name of each exchange on which registered

N/A

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 any shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files.) Yes ☒ No ☐

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

Large accelerated filer ☐

Non-accelerated filer ☒

Accelerated filer ☐

Smaller reporting company ☒

Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

As of November 1, 2024, the registrant had 12,800,000 shares of common stock, par value \$0.001, issued and outstanding.

**PACIFIC HEALTH CARE ORGANIZATION, INC.**  
**FORM 10-Q**  
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**PART I. FINANCIAL INFORMATION**

**Item 1. Financial Information**

**Pacific Health Care Organization, Inc.**  
Condensed Consolidated Balance Sheets

	<b>(Unaudited)</b> <b>September 30,</b> <b>2024</b>	<b>December 31,</b> <b>2023</b>
<b>ASSETS</b>		
<i><b>Current Assets</b></i>		
Cash	\$ 2,545,913	\$ 2,565,992
Investments	8,197,570	7,877,752
Accounts receivable (net of allowance \$11,862 and \$32,814)	1,093,407	1,020,580
Receivable – other	1,590	-
Deferred tax asset	51,018	38,871
Prepaid income tax	32,539	-
Prepaid expenses	151,914	179,702
Total current assets	<u>12,073,951</u>	<u>11,682,897</u>
<i><b>Property and Equipment, net</b></i>		
Computer equipment	242,848	255,783
Furniture and fixtures	13,283	21,620
Total property and equipment	<u>256,131</u>	<u>277,403</u>
Less: accumulated depreciation and amortization	<u>(198,202)</u>	<u>(200,009)</u>
Net property and equipment	57,929	77,394
Operating lease right-of-use assets, net	-	56,489
Other assets	7,110	7,110
<b>Total Assets</b>	<u><u>\$ 12,138,990</u></u>	<u><u>\$ 11,823,890</u></u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<i><b>Current Liabilities</b></i>		
Accounts payable	\$ 174,952	\$ 159,789
Accrued expenses	440,424	367,609
Income tax payable	-	296,452
Dividends payable	94,858	109,013
Operating lease liabilities, current portion	-	44,519
Unearned revenue	37,315	30,919
Total current liabilities	<u>747,549</u>	<u>1,008,301</u>
<i><b>Long Term Liabilities</b></i>		
Operating lease liabilities, long term portion	-	11,970
<b>Total Liabilities</b>	<u><u>\$ 747,549</u></u>	<u><u>\$ 1,020,271</u></u>
<i><b>Stockholders' Equity</b></i>		
Convertible preferred stock, \$0.001 par value, 5,000,000 shares authorized of which 40,000 shares designated as Series A preferred and 16,000 shares issued and outstanding	16	16
Common stock, \$0.001 par value, 800,000,000 shares authorized, 12,800,000 shares issued and outstanding	12,800	12,800
Additional paid-in capital	416,057	416,057
Retained earnings	10,962,568	10,374,746
Total stockholders' equity	<u>11,391,441</u>	<u>10,803,619</u>
<b>Total Liabilities and Stockholders' Equity</b>	<u><u>\$ 12,138,990</u></u>	<u><u>\$ 11,823,890</u></u>

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

**Pacific Health Care Organization, Inc.**  
Condensed Consolidated Statements of Operations  
(Unaudited)

	For three months ended September 30,		For nine months ended September 30,	
	2024	2023	2024	2023
<b>Revenues</b>				
HCO	\$ 275,728	\$ 373,280	\$ 961,929	\$ 945,759
MPN	166,606	132,403	459,185	392,789
Medical bill review	111,433	90,988	312,105	266,030
Utilization review	531,527	451,167	1,518,170	1,360,998
Medical case management	383,399	292,195	1,088,254	922,273
Other	59,032	65,830	184,747	183,605
Total revenues	<u>1,527,725</u>	<u>1,405,863</u>	<u>4,524,390</u>	<u>4,071,454</u>
<b>Expenses</b>				
Depreciation	8,384	8,936	26,925	27,652
Bad debt provision (recovery)	(1,082)	1,265	(20,952)	2,429
Consulting fees	58,035	56,418	176,315	173,235
Salaries and wages	723,080	646,423	2,069,577	1,949,923
Professional fees	99,606	89,677	302,795	263,880
Insurance	90,118	81,003	248,223	229,599
Outsource service fees	195,852	202,268	585,338	590,860
Data maintenance	8,783	4,524	75,285	69,278
General and administrative	193,372	168,344	542,121	390,019
Total expenses	<u>1,376,148</u>	<u>1,258,858</u>	<u>4,005,627</u>	<u>3,696,875</u>
Income from operations	151,577	147,005	518,763	374,579
<b>Other income</b>				
Interest income	113,634	102,017	319,883	301,991
Total other income	<u>113,634</u>	<u>102,017</u>	<u>319,883</u>	<u>301,991</u>
Income before taxes	265,211	249,022	838,646	676,570
Income tax provision	<u>90,348</u>	<u>69,901</u>	<u>250,824</u>	<u>189,913</u>
Net income	<u>\$ 174,863</u>	<u>\$ 179,121</u>	<u>\$ 587,822</u>	<u>\$ 486,657</u>
<b>Basic earnings per share:</b>				
Earnings per share amount	\$ 0.01	\$ 0.01	\$ 0.05	\$ 0.04
Basic common shares outstanding	12,800,000	12,800,000	12,800,000	12,800,000
<b>Fully diluted earnings per share:</b>				
Earnings per share amount	\$ 0.01	\$ 0.01	\$ 0.05	\$ 0.04
Fully diluted common shares outstanding	12,816,000	12,816,000	12,816,000	12,816,000

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

**Pacific Health Care Organization, Inc.**  
Condensed Consolidated Statements of Stockholders' Equity  
(Unaudited)

	Convertible Preferred Stock		Common Stock		Paid-in Capital	Retained Earnings	Total Stockholders' Equity
	Shares	Amount	Shares	Amount			
<b>Balance December 31, 2022</b>	16,000	\$ 16	12,800,000	\$ 12,800	\$ 416,057	\$ 10,888,418	\$ 11,317,291
Net Income	-	-	-	-	-	131,109	131,109
<b>Balance March 31, 2023</b>	16,000	\$ 16	12,800,000	\$ 12,800	\$ 416,057	\$ 11,019,527	\$ 11,448,400
Net Income	-	-	-	-	-	176,427	176,427
Common stock cash dividends paid	-	-	-	-	-	(1,280,000)	(1,280,000)
Preferred stock cash dividends paid	-	-	-	-	-	(1,600)	(1,600)
<b>Balance June 30, 2023</b>	16,000	16	12,800,000	12,800	416,057	9,914,354	10,343,227
Net Income	-	-	-	-	-	179,121	\$ 179,121
<b>Balance September 30, 2023</b>	16,000	\$ 16	12,800,000	\$ 12,800	\$ 416,057	\$ 10,093,475	\$ 10,522,348
<b>Balance December 31, 2023</b>	16,000	\$ 16	12,800,000	\$ 12,800	\$ 416,057	\$ 10,374,746	\$ 10,803,619
Net Income	-	-	-	-	-	197,403	197,403
<b>Balance March 31, 2024</b>	16,000	\$ 16	12,800,000	\$ 12,800	\$ 416,057	\$ 10,572,149	\$ 11,001,022
Net Income	-	-	-	-	-	215,556	215,556
<b>Balance June 30, 2024</b>	16,000	\$ 16	12,800,000	\$ 12,800	\$ 416,057	\$ 10,787,705	\$ 11,216,578
Net Income	-	-	-	-	-	174,863	174,863
<b>Balance September 30, 2024</b>	16,000	\$ 16	12,800,000	\$ 12,800	\$ 416,057	\$ 10,962,568	\$ 11,391,441

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

**Pacific Health Care Organization, Inc.**  
Condensed Consolidated Statements of Cash Flows  
(Unaudited)

	<b>Nine Months Ended September 30,</b>	
	<b>2024</b>	<b>2023</b>
<b>Cash flows from operating activities:</b>		
Net income	\$ 587,822	\$ 486,657
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	26,925	27,652
Bad debt provision (recovery)	(20,952)	2,429
Non-cash interest on investments	(143,634)	(126,422)
<b>Changes in operating assets and liabilities:</b>		
Decrease (increase) in accounts receivable	(51,875)	99,735
Decrease (increase) in prepaid expenses	27,788	(14,090)
Decrease (increase) in receivable - other	(1,590)	3,000
Decrease (increase) in deferred tax asset	(12,147)	(82,000)
Decrease (increase) in other assets	-	(508)
Increase (decrease) in accounts payable	15,163	(141,097)
Increase (decrease) in accrued expenses	72,815	(17,864)
Increase (decrease) in unearned revenue	6,396	3,771
Increase (decrease) in income tax payable	(328,991)	190,126
Net cash provided by (used in) operating activities	177,720	431,389
<b>Cash flows from investing activities:</b>		
Proceeds from investments	7,877,752	8,748,435
Purchase of investments	(8,053,936)	(7,642,981)
Purchase of fixed assets	(7,460)	(4,126)
Net cash provided by (used in) investing activities	(183,644)	1,101,328
<b>Cash flows from financing activities:</b>		
Issuance of cash dividend	(14,155)	(1,209,267)
Net cash provided by (used in) financing activities	(14,155)	(1,209,267)
Net increase (decrease) in cash	(20,079)	323,450
Cash at beginning of period	\$ 2,565,992	\$ 2,036,432
Cash at end of period	<u>\$ 2,545,913</u>	<u>\$ 2,359,882</u>
<b>Supplemental cash flow information</b>		
<b>Cash paid for:</b>		
Interest	\$ -	\$ -
Income taxes	\$ 598,000	\$ 82,000
<b>Non-cash investing and financing activities:</b>		
Dividends payable	\$ 57,858	\$ 72,333

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

**Pacific Health Care Organization, Inc.**  
Notes to Condensed Consolidated Financial Statements  
(Unaudited)

**NOTE 1 - BASIS OF FINANCIAL STATEMENT PRESENTATION**

The accompanying unaudited condensed consolidated financial statements have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission (the “Commission”) and in accordance with accounting principles generally accepted in the United States (“GAAP”). Certain information and footnote disclosures normally included in consolidated financial statements have been condensed or omitted in accordance with GAAP rules and regulations. The information furnished in these unaudited condensed consolidated financial statements includes normal recurring adjustments and reflects all adjustments, which, in the opinion of management, are necessary for a fair presentation of such financial statements. The preparation of condensed consolidated financial statements in accordance with GAAP requires management to make estimates and assumptions that affect both the recorded values of assets and liabilities at the date of the condensed consolidated financial statements and the revenues recognized and expenses incurred during the reporting period. These estimates and assumptions affect the Company’s recognition of deferred expenses, bad debts, income taxes, the carrying value of its long-lived assets and its provision for certain contingencies. The reasonableness of these estimates and assumptions is evaluated on a regular basis on a combination of historical and other information that comes to the Company’s attention that may vary its outlook for the future. While management believes the disclosures and information presented are adequate to make the information not misleading, the Company recommends these unaudited condensed consolidated financial statements be read in conjunction with its audited financial statements and notes thereto included in its annual report on Form 10-K for the year ended December 31, 2023. Operating results for the nine months ended September 30, 2024, are not necessarily indicative of the results to be expected for the year ending December 31, 2024.

**Principles of Consolidation** — The accompanying unaudited condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. Intercompany transactions and balances have been eliminated in consolidation.

**Basis of Accounting** — The Company uses the accrual method of accounting in accordance with accounting principles generally accepted in the United States for the periods ended September 30, 2024 and 2023.

**Reclassifications** — Certain reclassifications have been made to prior year amounts to conform to the current year presentations. These changes had no impact on the Company’s total assets or reported net income.

**Revenue Recognition** — The Company recognizes revenue in accordance with ASU 2014-09, “Revenue from Contracts with Customers (Topic 606).” The core principle underlying Topic 606 is that the Company will recognize revenue to represent the transfer of goods and services to customers in an amount that reflects the consideration to which the Company expects to be entitled in such exchange. This will require the Company to identify contractual performance obligations and determine whether revenue should be recognized at a point in time or over time, based on when control of goods and services transfers to a customer.

ASC 606 requires the use of a five-step model to recognize revenue from customer contracts. The five-step model requires that the Company (i) identify the contract with the customer, (ii) identify the performance obligations in the contract, (iii) determine the transaction price, including variable consideration to the extent that it is probable that a significant future reversal will not occur, (iv) allocate the transaction price to the respective performance obligations in the contract, and (v) recognize revenue when (or as) the Company satisfies the performance obligation. Revenues are generated as services are provided to the customer based on the sales price agreed and collected. The Company recognizes revenue as the time is worked or as units of production are completed, which is when the revenue is earned and realized. Labor costs are recognized as the costs are incurred.

The Company derives its revenue from fees charged for HCO notifications, HCO/MPN program administration, HCO/MPN custom networks, HCO/MPN claim network fees, medical bill review, utilization review services, medical case management and employee advocate services, and Medicare set-asides, and network access. These services are billed individually as separate components to our customers. Services from which we generate fees include monthly and/or annual HCO and/or MPN administration, claims network administration, medical bill review, utilization review, medical case management, employee advocate, workers’ compensation carve-outs, and Medicare set-asides.

The Company enters arrangements for bundled managed care, standalone services, or add-on ancillary services which include various units of accounting such as network solutions and patient management, and managed care. Such elements are considered separate units of accounting due to each element having value to the customer on a stand-alone basis and are billed separately. The selling price for each unit of accounting is determined using the contract price. When the Company's customers purchase several services, the pricing of the service sold is generally the same as if the services were sold on an individual basis. Revenue is recognized as the work is performed in accordance with the Company's customer contracts. Based upon the nature of the Company's services, bundled managed care elements are generally delivered in the same accounting period. The Company recognizes revenue for patient management services ratably over the life of the customer contract. Based upon prior experience in managed care, the Company estimates the deferral amount from when the customer's claim is received to when the customer contract expires. Advance payments from subscribers and billings made in advance are recorded on the balance sheet as deferred revenue.

**Accounts Receivable and Bad Debt Allowance** – In the normal course of business the Company extends credit to its customers on a short-term basis. Although the credit risk associated with these customers is minimal, the Company routinely reviews its accounts receivable balances and makes provisions for doubtful accounts. The Company ages its receivables by invoice date. Management reviews bad debt reserves quarterly and reserves specific accounts as warranted or sets up a general reserve based on amounts over 90 days past due. When an account is deemed uncollectible, the Company charges off the receivable against the bad debt reserve. A considerable amount of judgment is required in assessing the realization of these receivables including the current creditworthiness of each customer and related aging of the past-due balances, including any billing disputes. To assess the collectability of these receivables, the Company performs ongoing credit evaluations of its customers' financial condition. Through these evaluations, the Company may become aware of situations where a customer may not be able to meet its financial obligations due to deterioration of its financial viability, credit rating or bankruptcy. The allowance for doubtful accounts is based on the best information available to the Company and is reevaluated and adjusted as additional information is received. The Company evaluates the allowance based on historical write-off experience, the size of the individual customer balances, past-due amounts, and the overall national economy. At September 30, 2024 and December 31, 2023, bad debt reserves of \$11,862 and \$32,814, respectively, were maintained in a general reserve for certain balances over 90 days past due and potentially uncollectible accounts.

The percentages of the amounts due from major customers to total accounts receivable as of September 30, 2024 and December 31, 2023, are as follows:

	9/30/2024	12/31/2023
Customer A	25%	23%
Customer B	12%	17%
Customer C	11%	-%

**Significant Customers** - The Company provides services to insurers, third party administrators, self-administered employers, municipalities, and other industries. The Company is able to provide its full range of services to virtually any size employer in the state of California. Outside the state of California, the Company is able to provide utilization review, medical bill review and medical case management and employee advocate services.

During the periods ended September 30, 2024 and 2023, respectively, the Company had three customers that individually accounted for more than 10% of its total sales. The following table sets forth the percentages of total sales attributable to those customers during those periods:

	9/30/2024	9/30/2023
Customer A	21%	24%
Customer B	11%	10%
Customer C	11%	10%

**Leases** - The Company follows the guidance of ASC 842, Leases, which requires an entity to recognize a right-of-use asset and a lease liability for virtually all leases. The Company elected to exclude from its balance sheet the recognition of leases having a term of 12 months or less. Lease expense is recognized on a straight-line basis over the lease term. See Note 2 for further information regarding the Company's leases.



## NOTE 2 - OPERATING LEASES

The Company rents office space at 19800 MacArthur Boulevard, Suites 306 & 307, in Irvine, California. This lease was to expire as of March 31, 2024, but was renewed on December 28, 2023, for an additional 12 months, with a new expiration of March 31, 2025. The Company elected to exclude from its balance sheet the recognition of leases having a term of 12 months or less.

Lease expenses were \$34,941 and \$31,407 during the nine-month periods ended September 30, 2024 and 2023, respectively.

## NOTE 3 - SHAREHOLDERS' EQUITY

During the quarter ended June 30, 2023, our board of directors declared a special one-time cash dividend of \$0.10 per share on each share of Company common stock outstanding at the record date of June 5, 2023. Pursuant to the rights provided in the Designation of Rights, Privileges and Preferences of Series A Preferred Stock dated December 27, 2019, holders of the Company's Series A Preferred Stock participated in the dividend payment based on the number of shares of Series A Preferred Stock held on the record date. On the record date, June 5, 2023, we had 12,800,000 shares of common stock and 16,000 shares of Series A Preferred stock issued and outstanding.

As of September 30, 2024, we had issued \$1,281,600 in dividends related to the Company's June 2023 one-time cash dividend, with \$57,858 of that amount remaining payable. This payable has been accrued and included in the total dividends payable on the balance sheet.

## NOTE 4 - SIGNIFICANT ACCOUNTING POLICIES

### Earnings Per Share of Common Stock

The computation of earnings per share of common stock is based on the weighted average number of shares outstanding at the date of these unaudited condensed consolidated financial statements. The fully diluted earnings per share includes 16,000 shares of Series A convertible preferred stock.

	For the Nine Months Ended September 30,	
	2024	2023
Basic Earnings per share:		
Income (numerator)	\$ 587,822	\$ 486,657
Shares (denominator)	12,800,000	12,800,000
Per share amount	\$ 0.05	\$ 0.04
Fully Diluted Earnings per share:		
Income (numerator)	\$ 587,822	\$ 486,657
Shares (denominator)	12,816,000	12,816,000
Per share amount	\$ 0.05	\$ 0.04

## NOTE 5 - RECENTLY ISSUED ACCOUNTING STANDARDS

The Company has reviewed all recently issued, but not yet effective, accounting pronouncements and does not believe the future adoption of any such pronouncements will be expected to cause a material impact on its financial statements.

## NOTE 6 - INCOME TAXES

For the three months ended September 30, 2024, the Company recognized expense from income taxes of \$90,348, representing an effective tax rate of 33.2%. For the nine months ended September 30, 2024, the Company recognized expense from income taxes of \$250,824, representing an effective tax rate of 29.7%. The Company's effective tax rate will generally differ from the U.S. Federal statutory rate of 21.0% due to state taxes, permanent items, and discrete items. For the three months ended September 30, 2023, the Company recognized expense from income taxes of \$69,901. For the nine months ended September 30, 2023, the Company recognized expense from income taxes of \$189,913.

**NOTE 7 - SUBSEQUENT EVENTS**

In accordance with ASC 855-10 Company management reviewed all material events through the date of issuance and notes the following:

In October 2024 we received notice of termination from one of our significant customers, which we anticipate may materially impact future operating revenues. We anticipate phasing out the associated services for that customer during the fourth fiscal quarter of 2024. The customer termination was not due to a contract dispute, or issues related to our performance of services, and we remain in good standing with the customer.

Other than the event described above, there are no other material subsequent events noted through the date of issuance.

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Throughout this quarterly report, unless the context indicates otherwise, the terms, "we," "us," "our" or the "Company" refer to Pacific Health Care Organization, Inc., ("PHCO") and its wholly owned subsidiaries Medex Healthcare ("Medex"), Medex Managed Care, Inc. ("MMC") and Medex Medical Management, Inc. ("MMM").

All statements other than statements of historical fact included herein and in the documents incorporated by reference in this quarterly report on Form 10-Q (this "quarterly report"), if any, including without limitation, statements regarding our future financial position or results of operations, business strategy, potential acquisitions, budgets, projected costs, and plans and objectives of management for future operations, are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. In some cases, forward-looking statements can be identified by terminology such as "anticipate," "believe," "continue," "could," "estimate," "expect," "forecast," "foresee," "future," "intend," "likely," "may," "might," "plan," "potential," "predict," "project," "should," "strategy," "will," "would," and other similar expressions and their negatives.

Forward-looking statements are not guarantees of future performance and involve known and unknown risks and uncertainties, many of which may be beyond our control. Readers are cautioned not to place undue reliance on forward-looking statements, which speak only as of the date hereof, and actual results could differ materially as a result of various factors. The following include some but not all of the factors that could cause actual results or events to differ materially from anticipated results or events:

- competition within our industry, including competition from much larger competitors;
- our ability to retain existing customers and to attract new customers;
- cost reduction efforts by our existing and prospective customers;
- failure to retain or recruit, or changes in, officers and key employees, and uncertainties in our ability to maintain key consultants and advisors;
- reductions in worker's compensation claims or the demand for our services, from whatever source;
- the loss, ineffective management, malfunction (including those resulting from cybersecurity incidences and breaches), or increased costs of third-party-provided technologies and services on which our operations rely;
- delays, reductions, or cancellations of contracts we have previously entered;
- cybersecurity incidences and breaches, and other software system failures, and the imposition of laws imposing costly cybersecurity and data protection compliance;
- the loss of or inability to obtain adequate insurance coverage;
- legislative and regulatory requirements or changes which could render our services less competitive or obsolete;
- business combinations involving our customers or competitors;
- economic and labor market conditions generally and in the industries in which we and our customers participate, including the effects resulting from economic recessions, financial sector turmoil, international conflicts, and rising domestic inflation and related economic policy responses; and
- our failure to successfully develop new services and/or products either organically or through acquisition, or to anticipate current or prospective customers' needs.

For more detailed information about particular risk factors related to us and our business, see Part I, Item 1A *Risk Factors* of our Annual Report on Form 10-K for the year ended December 31, 2023, filed with the Securities and Exchange Commission (the "Commission") on April 16, 2024 (our "Annual Report").

New risk factors emerge from time to time, and it is not possible for our management to predict all risk factors, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements.

One should not place undue reliance on forward-looking statements. Forward-looking statements are based on the beliefs of management as well as assumptions made by and information currently available to management and apply only as of the date of this quarterly report or the respective dates of the documents from which it incorporates by reference. Neither we nor any other person assumes any responsibility for the accuracy or completeness of forward-looking statements. Further, except to the extent required by law, we undertake no obligations to update or revise any forward-looking statements, whether as a result of new information, future events, or a change in events, conditions, circumstances, or assumptions underlying such statements, or otherwise. We may also make additional forward-looking statements from time to time. Any subsequent forward-looking statements, whether written or oral, made by us or on our behalf, are also expressly qualified by these cautionary statements.

The following discussion should be read in conjunction with our unaudited condensed consolidated financial statements and the related notes contained elsewhere in this quarterly report and in our other filings with the Commission.

## **Overview**

We incorporated under the laws of the state of Utah in April 1970, under the name Clear Air, Inc. We changed our name to Pacific Health Care Organization, Inc. in January 2001. In February 2001, we acquired Medex, a California corporation organized in March 1994, in a share for share exchange. Medex is in the business of managing and administering both Health Care Organizations (“HCOs”) and Medical Provider Networks (“MPNs”) in the state of California and providing workers’ compensation carve-out and Medicare set-aside services. In March 2011, we incorporated MMC, a Nevada corporation, as a wholly owned subsidiary of the Company. MMC oversees and manages the Company’s utilization review and bill review services. In February 2012, we incorporated MMM, a Nevada corporation, as a wholly owned subsidiary of the Company. MMM is responsible for overseeing and managing medical case management and employee advocate services. We discontinued lien representation services in the third quarter of 2023 due to the lack of demand.

## **Business of the Company**

We offer an integrated and layered array of complementary business solutions that enable our customers to better manage their workers’ compensation-related healthcare administration costs. We are constantly looking for ways to expand the suite of services we can provide our customers, either through strategic acquisitions or organic development.

Our business objective is to deliver value to our customers by reducing their workers’ compensation-related medical claims expenses in a manner that will assure that injured employees receive high quality healthcare that allows them to recover from an injury and return to gainful employment without undue delay. According to studies conducted by auditing bodies on behalf of the California Division of Workers’ Compensation, (“DWC”) the two most significant cost drivers for workers’ compensation are claims frequency and longer than average treatment duration. Our services focus on ensuring timely medical treatment to reduce the claim duration and medical treatment costs.

Our services include providing customers access to our HCOs and MPNs. We also provide medical bill review, medical case management, employee advocate services, utilization review, workers’ compensation carve-outs, and Medicare set-aside services. Complementary to these services, we also provide expert witness testimony. We offer our services as a bundled solution, as standalone services, or as add-on services.

Our core services focus on reducing medical treatment costs by enabling our customers to have control and oversight of the medical treatment of their injured employees to ensure treatment is timely and appropriate. This control is primarily obtained by participation in our HCOs or one of our MPNs. Through Medex, we hold two of the total of four licenses issued by the state of California to establish and manage HCOs within the state of California. We hold several government-issued licenses to operate medical provider networks. We also hold approvals issued by the state of California to function as an MPN and currently administer 22 MPNs. Our HCO and MPN programs provide our customers with provider networks within which the customer has some ability to direct the administration of the claim. This is designed to decrease the incidence of fraudulent claims and disability awards and ensure injured employees receive necessary vocational rehabilitation and training. Our medical bill and utilization review services provide oversight of medical billing and treatment requests, and our medical case management and employee advocate services keep workers’ compensation claims progressing to a resolution and assure treatment plans are aligned from a medical perspective.

Our customers include self-administered employers, insurers, third-party administrators, municipalities, and others. Our principal customers are companies with operations located in the state of California where the cost of workers’ compensation insurance is a critical problem for employers, though we process medical bill reviews, utilization reviews, and provide medical case management and employee advocate services in several other states. Our provider networks, which are located only in California, are comprised of providers experienced in treating occupational injuries.

Our business has a long sales cycle, typically eight months or more. Once we have established a customer relationship and enrolled the employees of our employer customers, we anticipate our revenue to adjust with the growth or retraction of our customers' employee headcount. We also expect growth and retraction of employee headcounts throughout the year as we gain new customers and lose existing customers. The reasons for customer terminations vary but include when a customer opts to use a different workers' compensation administration vendor; engages an insurance carrier or third-party administrator that uses a different workers' compensation administration vendor; and when our contract ends with state and local governments and they are required to engage in a public bidding process for their workers' compensation administration vendor.

### **Trends affecting our business and recent highlights**

The employee enrollment numbers in our HCO and MPN programs typically correlate with general economic conditions and the size and activities of our customers' workforce. For example, during the nine-month period ended September 30, 2024, we saw an increase in MPN revenue that was partly attributable to an increase in monthly program administration fees generated from our customers' additional employee enrollments in the MPN program. In contrast, our HCO revenue growth was offset during the same period by a decrease in annual notifications revenue from one of our customers that experienced a reduced employee headcount. If economic conditions become challenging, including from the effects of inflationary pressures, elevated interest rates, and difficult labor market conditions, our customers may reduce their workforce, in which case we would expect a decline in the number of employees enrolled in our HCO and MPN programs in future periods and in related revenues.

We have expanded our employee advocate services to six states outside of California, which continues to bolster our medical case management revenues. For example, during the nine-month period ended September 30, 2024, revenue from our employee advocate services increased 201% when compared to the same period of 2023, which drove an 11% increase in MCM revenue. We plan to continue to expand employee advocate services to other states during the remainder of the year and 2025 but cannot guarantee that we will be successful in further growing this service.

Though we continue our efforts to increase our customer base and reduce customer concentration across all service lines, the addition or loss of a single customer can materially impact our results of operations. For example, in October 2024 we received notice of termination from one of our significant customers, which we anticipate may materially impact future operating revenues. We anticipate phasing out the associated services for that customer during the fourth fiscal quarter of 2024. The customer termination was not due to a contract dispute or issues related to our performance of services, and we remain in good standing with the customer. We expect to continue to be susceptible to risks associated with customer concentration, which could continue to materially affect our results of operations into the foreseeable future.

### **Revenue**

We derive revenue from fees charged for HCO notifications, HCO/MPN program administration, HCO/MPN custom networks, HCO/MPN claim network fees, medical bill review, utilization review services, medical case management and employee advocate services, Medicare set-asides, and network access.

#### HCO

HCO revenue is generated from fees charged to our employer customers for annual and new hire notifications to enroll their employees into our HCO program, annual or monthly program administration, custom network fees, claim network fees to access our HCO provider networks, and fees for other ancillary services they may select.

#### MPN

Like HCO revenue, MPN revenue is generated from fees charged to our employer customers for monthly program administration, custom network fees, and claim network fees to access our MPN provider networks. Unlike HCOs, from which we derive revenues from annual and new hire notification fees, MPNs do not require annual and new hire notifications and as such we do not generate related revenues.

#### Medical bill review

California and many other states have established fee schedules for the maximum allowable fees payable under workers' compensation for a variety of procedures performed by medical providers. Many procedures, however, are not covered under the fee schedules, such as hospital bills, which still require review and negotiation. Medical bill review involves analyzing medical provider services and equipment billing to ascertain proper reimbursement. Our medical bill review services include coding review and re-bundling, confirming that the services are customary and reasonable, fee schedule compliance, out-of-network bill review, pharmacy review, and preferred provider organization repricing arrangements. Our medical bill review services can result in significant savings for our customers. Revenue for medical bill reviews is generated based on a set fee per medical bill reviewed and a percentage of savings of the preferred provider organization discounts. Hospital bill review services generate revenue on a percentage of savings off of the hospital bill, usually with a negotiated cap.

### Utilization review

Utilization review is the review of medical treatment requests by providers to provide a safeguard for employers and injured employees against unnecessary or inappropriate medical treatment from the perspective of medical necessity, quality of care, appropriateness of decision-making, and timeliness of treatment. Its purpose is to reduce employer liability for medical costs that are not medically appropriate or approved by the relevant medical and legal authorities and the payor. We generate revenue when we receive a referral for a request for authorization of treatment from a claims adjuster. We bill by the number of treatment requests and the level of expertise of the reviewer required to approve, modify, or deny the request.

### Medical case management

Medical case management oversees the injured employees' medical treatment to ensure that it progresses to a resolution and assures treatment plans are aligned from a medical perspective. Medical oversight is a collaborative process that assesses, evaluates, coordinates, implements and monitors medical treatment plans and the options and services required to meet an injured worker's health needs. Our medical case management services are performed by nurses who are licensed by the state and have expertise in various clinical areas and backgrounds in workers' compensation matters. We work to manage the number of nurses in our program to maintain our ratio of claims per nurse at a level that ensures timely and appropriate medical care is given to the injured worker and facilitates faster claim closures for our customers.

We also offer employee advocate services, which is similar to medical case management in that it utilizes our medical case managers who provide similar services; however, the medical case manager is an advocate for the employee. We generate revenue from these services when we receive a workers' compensation claim and a medical case manager is assigned to oversee the injured workers' medical treatment, with billing based on the number of hours a medical case manager works on the claim.

### Other

Other revenue consists of revenue derived from network access fees charged for network access for preferred provider organizations, ancillary legal support services, Medicare set-aside, and workers' compensation carve-out services.

The following table sets forth, for the below indicated periods ended September 30, 2024 and 2023, respectively, the percentage each revenue item identified in our unaudited condensed consolidated financial statements contributed to total revenues during the respective period.

	For three months ended September 30,		For nine months ended September 30,	
	2024	2023	2024	2023
HCO	18%	27%	21%	23%
MPN	11%	9%	10%	10%
Medical bill review	7%	6%	7%	6%
Utilization review	35%	32%	34%	33%
Medical case management	25%	21%	24%	23%
Other	4%	5%	4%	5%

## Expense

### Consulting fees

Consulting fees include fees we pay to third parties for IT, financial, marketing, lobbying, and in-house legal services related to the various services we offer.

### Salaries and wages

Salaries and wages reflect employment-related compensation we pay to our employees, payroll processing, payroll taxes and commissions.

### Professional fees

Professional fees include fees we pay to third parties to provide medical consulting, field medical case management, and board of directors' fees for board meetings, as well as legal, accounting, and other professional services fees.

### Insurance

Insurance expenses are comprised primarily of health insurance benefits offered to our employees, directors' and officers' liability insurance, cyber liability, workers' compensation, and business liability coverages.

### Outsource service fees

Outsource service fees consist of costs incurred by our subsidiaries by partially outsourcing utilization review, medical bill review, administrative services for medical case management and HCO, and Medicare set-aside services, and typically tend to fluctuate in correlation with customer demand for those services.

### Data maintenance fees

Data maintenance fees include fees we pay to a third party to process HCO annual and new hire employee enrollments and notifications. HCO employee enrollment and notification fees fluctuate throughout the year because of the varied timing of customer enrollment into our HCO program, the number of employees our customers have in their workforce, the number of new hires throughout the year, and the number of new workers' compensation claims.

### General and administrative

General and administrative expenses consist primarily of dues and subscriptions, IT enhancement, meals, travel, and entertainment, office rent, telephone, vacation expense, licenses and permits, miscellaneous, advertising and marketing, auto expenses, bank charges and fees, education, parking, postage and delivery, shareholders' expense, equipment repairs and office supplies.

The following table sets forth, for the below indicated periods ended September 30, 2024 and 2023, respectively, the percentage each expense item identified in our unaudited condensed consolidated financial statements contributed to total expenses during the respective period.

	For three months ended September 30,		For nine months ended September 30,	
	2024	2023	2024	2023
Depreciation	-%	1%	1%	1%
Bad debt provision (recovery)	-%	-%	(1%)	-%
Consulting fees	4%	4%	4%	5%
Salaries and wages	53%	51%	52%	53%
Professional fees	7%	7%	8%	7%
Insurance	7%	6%	6%	6%
Outsource service fees	14%	16%	15%	16%
Data maintenance fees	1%	1%	2%	2%
General and administrative	14%	14%	13%	10%

## Results of Operations

### Comparison of the three months ended September 30, 2024 and 2023

The following represents selected components of our consolidated results of operations for the three-month periods ended September 30, 2024 and 2023, respectively, together with changes from period-to-period:

	For three months ended September 30,		Amount Change	% Change
	2024	2023		
Revenues:				
HCO	\$ 275,728	\$ 373,280	\$ (97,552)	(26%)
MPN	166,606	132,403	34,203	26%
Medical bill review	111,433	90,988	20,445	22%
Utilization review	531,527	451,167	80,360	18%
Medical case management	383,399	292,195	91,204	31%
Other	59,032	65,830	(6,798)	(10%)
Total revenues	1,527,725	1,405,863	121,862	9%
Expenses:				
Depreciation	8,384	8,936	(552)	(6%)
Bad debt provision (recovery)	(1,082)	1,265	(2,347)	(186%)
Consulting fees	58,035	56,418	1,617	3%
Salaries and wages	723,080	646,423	76,657	12%
Professional fees	99,606	89,677	9,929	11%
Insurance	90,118	81,003	9,115	11%
Outsource service fees	195,852	202,268	(6,416)	(3%)
Data maintenance	8,783	4,524	4,259	94%
General and administrative	193,372	168,344	25,028	15%
Total expenses	1,376,148	1,258,858	117,290	9%
Income from operations	151,577	147,005	4,572	3%
Other income				
Interest income	113,634	102,017	11,617	11%
Total other income	113,634	102,017	11,617	11%
Income before taxes	265,211	249,022	16,189	7%
Income tax provision	90,348	69,901	20,447	29%
Net income	\$ 174,863	\$ 179,121	\$ (4,258)	(2%)

## Revenue

### HCO

During the three-month period ended September 30, 2024, HCO revenue decreased 26%, compared to the same period in the prior year. The decrease in HCO revenue was attributable to the misaligned timing of when we recognized revenues from annual notifications and monthly program fees for some of our customers during each year. We expect similar future fluctuations for HCO revenues when the timing of recognizing HCO revenue for customers does not align between comparable periods. The decreases in HCO revenues were partially offset by an increase in reported injuries from other customers.



MPN

MPN revenue for the three-month period ended September 30, 2024, increased by 26%, compared to the same period in the prior year. The increase was attributable to an increase in claim network fees activity for one of our customers due to increases in reported injuries. The increase was further driven by catch-up submissions from a customer who had not been submitting their reports of injury properly during the second quarter of fiscal year 2024, which was remedied during the third quarter of fiscal year 2024.

Medical bill review

During the three-month period ended September 30, 2024, medical bill review revenue increased by 22%, compared to the same period in the prior year. The increase was due to an increase in bill review revenue from existing customers, along with the addition of a new customer. The increase was partially offset by slightly reduced revenue during the first three quarters of 2024 stemming from the loss of a customer in the third quarter of fiscal year 2023.

Utilization review

During the three-month period ended September 30, 2024, utilization review revenue increased 18%, compared to the same period in the prior year. The increase in utilization review revenue was due to increased referrals for requests for authorization from existing customers.

Medical case management

During the three-month period ended September 30, 2024, medical case management revenue increased 31%, compared to the same period in the prior year. The increase was attributable to an increase in employee advocate revenue due to the expansion of the program from California to locations in six other states, and increased accuracy and efficiency in our related billing processes.

Other

Other revenue for the three-month period ended September 30, 2024, decreased 10%, compared to the same period in the prior year due to a decrease in Medicare set-aside referrals, and a decrease in network access revenue from decreased customer usage of our network.

**Expenses**

Total expenses for the three-month period ended September 30, 2024, increased 9%, compared to the same period in the prior year. The increase was attributable to increases in data maintenance, salaries and wages, general and administrative, professional fees, and insurance expenses. The increases were partially offset by a decrease in outsource service fees and bad debt provision (recovery).

Bad debt provision (recovery)

During the three-month period ended September 30, 2024, bad debt provision (recovery) expenses decreased 186%, compared to the same period in the prior year, as a result of collecting aged receivables from our customers.

Salaries and wages

During the three-month period ended September 30, 2024, salaries and wages increased 12%, compared to the same period in the prior year. The increase was due to a discretionary bonus and the addition of one employee.

Professional fees

During the three-month period ended September 30, 2024, professional fees increased 11%, compared to the same period in the prior year. The increase in professional fees was primarily the result of increases in accounting and other professional services.

Insurance

During the three-month period ended September 30, 2024, insurance expenses increased 11%, compared to the same period in the prior year, due to increases in cyber liability insurance premiums and health insurance costs for employees.

Outsource service fees

During the three-month period ended September 30, 2024, outsource service fees decreased 3%, compared to the same period in the prior year. The decrease in outsource service fees was primarily attributable to decreases in outsource services used to provide our utilization review program and Medicare set-aside services. Utilization review outsource service fees decreased due to our transition to a new vendor that charges lower rates for physician and specialty reviews. Medicare set-asides outsource service fees decreased due to decreased referral activity. We anticipate that our outsourcing and related fees will continue to correspond with the level of medical bill review, utilization review, certain medical case management services, and Medicare set-aside services we provide in the future.

Data maintenance

During the three-month period ended September 30, 2024, data maintenance fees increased 94%, compared to the same period in the prior year. This increase is largely attributable to the misaligned timing of when we incurred these expenses during each year when comparing the quarterly periods. We expect similar future fluctuations of data maintenance fees for comparable periods when the timing of incurring this expense does not align between such periods.

General and administrative

General and administrative expenses increased by 15% during the three-month period ended September 30, 2024, compared to the same period of the prior year. The increase was primarily due to increases in advertising and marketing, dues and subscriptions, licenses and permits, and vacation expense. The increases were partially offset by decreases in IT enhancement and miscellaneous expenses.

**Income from Operations**

During the three-month period ended September 30, 2024, we recognized a 9% increase in total revenue and a 9% increase in total expenses compared to the same period of 2023. As a result, our income from operations increased \$4,572, or 3%, when compared to the three-month period ended September 30, 2023.

**Other Income**

Other income increased 11% during the three-month period ended September 30, 2024, compared to the same period in 2023, due to an increase in non-cash interest income from our investment in U.S. Treasury bills. During the three-month period ended September 30, 2024, we had non-cash interest income of \$113,634 from our investment of \$8,053,936 in U.S. Treasury bills which will mature on November 29, 2024, whereas, during the same period of 2023, we had non-cash interest income of \$102,017 from our \$7,642,981 investment in U.S. Treasury bills which matured on December 7, 2023.

**Income Tax Provision**

We realized a \$20,447 or 29% increase in our income tax provision during the three-month period ended September 30, 2024, compared to the same period of 2023, primarily because of the increase in our interest income.

**Net Income**

During the three-month period ended September 30, 2024, we realized a 9% increase in total revenues, a 9% increase in total expenses, and a 29% increase in our provision for income tax when compared to the same period in the prior year. As a result, we realized net income of \$174,863 during the three-month period ended September 30, 2024, a 2% decrease in net income when compared to the same period in the prior year.

**Comparison of the nine months ended September 30, 2024 and 2023**

The following represents selected components of our consolidated results of operations for the nine-month periods ended September 30, 2024 and 2023, respectively, together with changes from period-to-period:

	<b>For nine months ended September 30,</b>		<b>Amount</b>	
	<b>2024</b>	<b>2023</b>	<b>Change</b>	<b>% Change</b>
Revenues:				
HCO	\$ 961,929	\$ 945,759	\$ 16,170	2%
MPN	459,185	392,789	66,396	17%
Medical bill review	312,105	266,030	46,075	17%
Utilization review	1,518,170	1,360,998	157,172	12%
Medical case management	1,088,254	922,273	165,981	18%
Other	184,747	183,605	1,142	1%
Total revenues	4,524,390	4,071,454	452,936	11%
Expenses:				
Depreciation	26,925	27,652	(727)	(3%)
Bad debt provision (recovery)	(20,952)	2,429	(23,381)	(963%)
Consulting fees	176,315	173,235	3,080	2%
Salaries and wages	2,069,577	1,949,923	119,654	6%
Professional fees	302,795	263,880	38,915	15%
Insurance	248,223	229,599	18,624	8%
Outsource service fees	585,338	590,860	(5,522)	(1%)
Data maintenance	75,285	69,278	6,007	9%
General and administrative	542,121	390,019	152,102	39%
Total expenses	4,005,627	3,696,875	308,752	8%
Income from operations	518,763	374,579	144,184	38%
Other income				
Interest Income	319,883	301,991	17,892	6%
Total other income	319,883	301,991	17,892	6%
Income before taxes	838,646	676,570	162,076	24%
Income tax provision	250,824	189,913	60,911	32%
Net income	\$ 587,822	\$ 486,657	\$ 101,165	21%

## Revenue

### HCO

During the nine-month period ended September 30, 2024, HCO revenue increased 2%, compared to the same period in the prior year. The increase in HCO revenue was attributable to the misaligned timing of when we recognized revenues from annual notifications and monthly program fees for some of our customers during each year. We expect similar future fluctuations for HCO revenues when the timing of recognizing HCO revenue for customers does not align between comparable periods.

### MPN

During the nine-month period ended September 30, 2024, MPN revenue increased by 17%, compared to the same period in the prior year. The increase in MPN revenue was largely due to an increase in monthly MPN program administration fees, resulting from the addition of a new customer and an increase in our customers' employee headcount and reported injuries. The increase in MPN revenue was partially offset by a decrease in reported injuries at other customer locations.

### Medical bill review

During the nine-month period ended September 30, 2024, medical bill review revenue increased by 17%, compared to the same period in the prior year. The increase was due to an increase in bill review revenue from existing customers along with the addition of two new customers. The increase was partially offset by the loss of a customer in the third quarter of fiscal year 2023.

### Utilization review

During the nine-month period ended September 30, 2024, utilization review revenue increased 12%, compared to the same period in the prior year. The increase in utilization review revenue was due to increased referrals of requests for authorization from existing customers.

### Medical case management

During the nine-month period ended September 30, 2024, medical case management revenue increased 18%, compared to the same period in the prior year. The increase was attributable to an increase in employee advocate revenue due to the expansion of the program from California to locations in six other states, and increased accuracy and efficiency in our related billing processes.

### Other

Other revenue for the nine-month period ended September 30, 2024 increased 1%, compared to the same period in the prior year, primarily due to an increase in network access revenue from increased customer usage of our network during the first two fiscal quarters of 2024.

## Expenses

Total expenses for the nine-month period ended September 30, 2024 increased 8%, compared to the same period in the prior year. The increase was primarily attributable to increases in general and administrative, professional fees, insurance, and salaries and wages. These increases were partially offset by a decrease in bad debt provision (recovery) and outsource service fees.

### Bad debt provision (recovery)

During the nine-month period ended September 30, 2024, bad debt provision (recovery) expenses decreased 963%, compared to the same period in the prior year, as a result of collecting aged receivables from our customers.

### Salaries and wages

During the nine-month period ended September 30, 2024, salaries and wages increased 6%, compared to the same period in the prior year. The increase was due to a discretionary bonus and the addition of one employee.

### Professional fees

During the nine-month period ended September 30, 2024, professional fees increased 15%, compared to the same period in the prior year. The increase in professional fees was primarily the result of increases in accounting and other professional services.

Insurance

During the nine-month period ended September 30, 2024, insurance expenses increased 8%, compared to the same period in the prior year, due to increases in cyber liability insurance premiums and health insurance costs for employees.

General and administrative

General and administrative expenses increased by 39% during the nine-month period ended September 30, 2024, compared to the same period of 2023. The increase was primarily due to increases in advertising and marketing, dues and subscriptions, IT enhancement, meals/travel, and licenses and permits. The increases were primarily offset by decreases in vacation expense and miscellaneous expenses.

**Income from Operations**

During the nine-month period ended September 30, 2024, we recognized an 11% increase in total revenue and an 8% increase in total expenses compared to the same period of 2023. As a result, our income from operations increased \$144,184, or 38%, during the nine-month period ended September 30, 2024, when compared to the same period in the prior year.

**Other Income**

Other income increased 6% during the nine-month period ended September 30, 2024, compared to the same period in 2023, due to an increase in interest income from our investment in U.S. Treasury bills. During the nine-month period ended September 30, 2024, we had interest income of \$319,883, including cash interest income of \$176,249 from our investment in U.S. Treasury bills, which matured on June 6, 2024, and non-cash interest income of \$143,634 from our reinvestment of \$8,053,936 in U.S. Treasury bills, which will mature on November 29, 2024. The total interest earned in U.S. Treasury bills, which matured on June 6, 2024, was \$207,611, of which \$176,249 was recognized in fiscal year 2024.

During the nine-month period ended September 30, 2023, we had interest income of \$301,991, including cash interest income of \$175,569 from our investment in U.S. Treasury bills which matured on June 8, 2023, and non-cash interest income of \$126,422 from our investments in U.S. Treasury bills, which matured on December 7, 2023. The total interest earned in U.S. Treasury bills, which matured on June 8, 2023, was \$202,694, of which \$175,569 was recognized in fiscal year 2023. The previously disclosed total interest earned on and amount recognized in fiscal year 2023 from the U.S. Treasury bills, which matured on June 8, 2023, included an additional \$27,124 of non-cash interest on the U.S. Treasury bills that matured on December 7, 2023. That inclusion had no effect on the reported interest income and has been deducted in the above presentation.

**Income Tax Provision**

We realized a \$60,911 or 32% increase in our income tax provision during the nine-month period ended September 30, 2024, compared to the same period of 2023, primarily because of the increase in our income from operations.

**Net Income**

During the nine-month period ended September 30, 2024, we realized an 11% increase in total revenues, an 8% increase in total expenses, and a 32% increase in our provision for income tax when compared to the same period in the prior year. As a result, we realized net income of \$587,822, a 21% increase during the nine-month period ended September 30, 2024, when compared to the same period in the prior year.

**Liquidity and Capital Resources**

Liquidity is a measurement of our ability to meet our potential cash requirements for general business purposes. We consistently monitor our liquidity and financial position and take actions management believes are in the best interest of the Company and its shareholders to ensure the long-term financial viability of the Company. Historically, we have realized positive cash flows from operating activities, which, coupled with positive reserves of cash on hand, have been used to fund our operating expenses and obligations. We continue our efforts to keep operating expenses low by maintaining a relatively small office and having a largely remote workforce, though some of those savings are used on our continued need for IT and IT security enhancements.

During the nine-month period ended September 30, 2024, we realized net income of \$587,822 primarily as a result of interest income from our investment in U.S. Treasury bills and income from operations during that period. As of September 30, 2024, we had \$2,545,913 cash on hand compared to \$2,565,992 as of December 31, 2023. The \$20,079 decrease in cash on hand was the result of net cash provided by our operating activities fully offset by net cash used in investing and financing activities.

Management currently believes that cash on hand and anticipated revenues from operations will be sufficient to cover our operating expenses for at least the next twelve months. However, our ability to generate cash from operations will depend on our future operating performance, which is subject to certain ongoing known and unknown risks and uncertainties. For a discussion of particular risk factors related to our business, see Part I, Item 1A *Risk Factors* of our Annual Report.

We currently have planned certain capital expenditures to replace our laptops and ancillary devices due to their age and as part of our ongoing continuity plan. We anticipate investing activities will continue throughout 2024 as we replace aging software, computer equipment, and further enhance our IT security. We anticipate these costs will be significant, but believe we have adequate cash on hand to cover these expenses. We do not anticipate these expenditures will require us to seek outside sources of funding.

We intend to continue to pursue potential acquisition transactions that, if additional cash on hand were needed for such a transaction, we would either need to condition closing upon maturity of our investments, if applicable, or seek alternate financing, or a combination of those approaches. We may also seek growth through organic development of new lines of business or expansion of existing offerings. Depending upon the nature of the opportunities we identify, such acquisitions or expansion could require greater capital resources than we currently possess. Should we need additional capital resources, we could seek to obtain such through debt and/or equity financing. We do not currently possess an institutional source of financing and there is no assurance that we could be successful in obtaining equity or debt financing when needed, on favorable terms, or at all. We could also use shares of our capital stock as consideration for a business acquisition transaction, but there is also no assurance that there would be significant interest in our capital stock from a potential seller or the market.

## Cash Flow

During the nine-month period ended September 30, 2024, cash was primarily used to fund operations. We had a net decrease in cash of \$20,079 during the nine-month period ended September 30, 2024 and a net increase in cash of \$323,450, during the same period of 2023. See below for additional discussion and analysis of cash flow.

	For the nine months ended September 30,	
	2024 (unaudited)	2023 (unaudited)
Net cash provided by operating activities	\$ 177,720	\$ 431,389
Net cash provided by (used in) investing activities	(183,644)	1,101,328
Net cash provided by (used in) financing activities	(14,155)	(1,209,267)
Net increase (decrease) in cash	\$ (20,079)	\$ 323,450

For the nine-month period ended September 30, 2024, net cash provided by operating activities was \$177,720, whereas for the nine months ended September 30, 2023, net cash provided by operating activities was \$431,389, a decrease of \$253,669. This decrease in cash flow from operations during the current period was the result of realizing an increase in net income, offset primarily by a decrease in accounts receivable, and increases in income tax payable and non-cash interest earned on investments.

Net cash used in investing activities was \$183,644 during the nine-month period ended September 30, 2024, compared to net cash provided by investing activities of \$1,101,328 during the same period of 2023. The change in net cash provided by (used in) investing activities during the third quarter of 2024 was the result of reinvesting the proceeds of investments that reached maturity during the period. We plan to continue reinvesting the proceeds as our investments reach maturity.

During the nine-month period ended September 30, 2024, net cash used in financing activities was \$14,155, which was the amount paid during that quarter of the remaining dividends payable from the Company's June 2023 one-time cash dividend of \$1,281,600. The remaining amount payable for the dividend as of September 30, 2024, was \$57,858.

## Off-Balance Sheet Financing Arrangements

As of September 30, 2024, we had no off-balance sheet financing arrangements.

## Inflation

We experience pricing pressures in the form of competitive pricing. Insurance carriers and third-party administrators compete against us for customers by offering bundled claims administration services with their own managed care services at a lower rate. We are also impacted by rising costs for certain inflation-sensitive operating expenses such as labor and employee benefits and facility leases. We believe that these impacts can be material to our revenues or net income. Some of our customers are public entities which contract with us at a fixed price for the term of the contract. Increases in labor and employee benefits can reduce our profit margin over the term of these contracts. See also “*the effects of inflation may have a disproportionate impact on our business*” under Part I, Item 1A *Risk Factors* of our Annual Report.

## Critical Accounting Estimates

Our consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States (“GAAP”). Application of these principles requires us to make estimates, assumptions, and judgments that affect the amounts reported in our consolidated financial statements and accompanying notes. Because of the inherent uncertainty in making estimates and judgments, actual results could differ from our estimates and judgments. For more detailed information about our critical accounting estimates related to us and our business, see “*Critical Accounting Estimates*” under Part II, Item 7 *Management’s Discussion and Analysis of Financial Condition and Results of Operations* of our Annual Report.

## Item 3. Quantitative and Qualitative Disclosures about Market Risk

Smaller reporting companies are not required to provide this information.

## Item 4. Controls and Procedures

### *Evaluation of Disclosure Controls and Procedures*

We maintain “disclosure controls and procedures,” as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, which are controls and other procedures that are designed to provide reasonable assurance that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company’s management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure.

Our management, with the participation of our principal executive officer and principal financial officer, conducted an evaluation of the effectiveness of our disclosure controls and procedures as of the end of the period covered by this quarterly report. Based on the evaluation of our disclosure controls and procedures as of September 30, 2024, the end of the period covered by this quarterly report, our Chief Executive Officer and principal financial officer concluded that our disclosure controls and procedures were effective at a reasonable assurance level.

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

There were no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the quarter ended September 30, 2024, that materially affected or are reasonably likely to materially affect our internal control over financial reporting.

**PART II. OTHER INFORMATION****Item 1A. Risk Factors**

Management does not believe there have been any material changes to the risk factors listed under Part I, Item 1A, *Risk Factors* of our Annual Report.

**Item 5. Other Information**

During the quarter ended September 30, 2024, none of our directors or executive officers adopted, modified or terminated any contract, instruction or written plan for the purchase or sale of our securities that was intended to satisfy the affirmative defense conditions of Rule 10b5-1(c) or any “non-Rule 10b5-1 trading arrangement” as defined in Item 408(c) of Regulation S-K.

**Item 6. Exhibits**

Exhibits. The following exhibits are filed or furnished, as applicable, as part of this quarterly report:

<b>Exhibit Number</b>	<b>Title of Document</b>
Exhibit 3.1	<a href="#">Articles of Incorporation and Amendments thereto<sup>(1)</sup></a>
Exhibit 3.2	<a href="#">Bylaws<sup>(1)</sup></a>
Exhibit 3.3	<a href="#">Bylaws<sup>(2)</sup></a>
Exhibit 3.4	<a href="#">Articles of Amendment to Articles of Incorporation to effect 1 share for 50 shares reverse split<sup>(3)</sup></a>
Exhibit 3.5	<a href="#">Articles of Amendment to Articles of Incorporation to effect 2.5 shares for 1 share forward split<sup>(3)</sup></a>
Exhibit 3.6	<a href="#">Certificate of Designation of Rights, Privileges and Preferences of Series A Convertible Preferred Stock<sup>(4)</sup></a>
Exhibit 3.7	<a href="#">Articles of Amendment to Articles of Incorporation to affect four-shares-for-one-share forward split<sup>(5)</sup></a>
Exhibit 3.8	<a href="#">Articles of Amendment to Articles of Incorporation, dated December 27, 2019, including Amended Certification of Designation of Rights, Privileges and Preferences of Series A Convertible Preferred Stock to affect a four-shares-for-one-share forward stock split<sup>(6)</sup></a>
Exhibit 31.1	<a href="#">Certification of Principal Executive Officer pursuant to Rule 13a-14(a) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002<sup>*</sup></a>
Exhibit 31.2	<a href="#">Certification of Principal Financial Officer pursuant to Rule 13a-14(a) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002<sup>*</sup></a>
Exhibit 32.1	<a href="#">Certification pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002<sup>*</sup></a>
Exhibit 101	Pursuant to Rules 405 and 406 of Regulation S-T, the following information is formatted in iXBRL (Inline eXtensible Business Reporting Language): (i) the Condensed Consolidated Balance Sheets as of September 30, 2024 (Unaudited) and December 31, 2023, (ii) the Unaudited Condensed Consolidated Statements of Operations for the Three and Nine Months Ended September 30, 2024 and 2023, (iii) the Unaudited Condensed Consolidated Statements of Stockholder’s Equity for the Three and Nine Months Ended September 30, 2024 and 2023, (iv) the Unaudited Condensed Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2024 and 2023, (v) Notes to the Unaudited Condensed Consolidated Financial Statements, and (vi) the cover page.*
Exhibit 104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

\* Filed or furnished herewith, as applicable.

(1) Incorporated by reference to Registrant’s Registration Statement on Form 10-SB as filed with the Commission on September 19, 2002.

(2) Incorporated by reference to Registrant’s Registration Statement on Form 10-SB/A-2 as filed with the Commission on July 13, 2004.

(3) Incorporated by reference to Registrant’s Definitive Proxy Statement on Schedule 14A as filed with the Commission on March 13, 2008.

(4) Incorporated by reference to Registrant’s Current Report on Form 8-K as filed with the Commission on November 22, 2016.

(5) Incorporated by reference to Registrant’s Current Report on Form 8-K as filed with the Commission on March 27, 2018.

(6) Incorporated by reference to Registrant’s Current Report on Form 8-K as filed with the Commission on January 2, 2020.



**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this quarterly report to be signed on its behalf by the undersigned, thereunto duly authorized.

**PACIFIC HEALTH CARE ORGANIZATION, INC.**

Date: November 1, 2024

By: /s/ Tom Kubota  
Tom Kubota  
Chief Executive Officer, President and Chairman of the Board  
(Principal Executive, Financial and Accounting Officer)

**EXHIBIT 31.1**

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER  
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Tom Kubota, certify that:

- 1) I have reviewed this quarterly report on Form 10-Q of Pacific Health Care Organization, Inc.:
- 2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- 3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
- 4) The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:
  - (a) Designed such disclosure controls and procedures or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal controls over financial reporting; and
- 5) The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 1, 2024

By: /s/ Tom Kubota  
Tom Kubota  
Chief Executive Officer

**EXHIBIT 31.2**

**CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER  
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Tom Kubota, certify that:

- 1) I have reviewed this quarterly report on Form 10-Q of Pacific Health Care Organization, Inc.:
- 2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- 3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
- 4) The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:
  - (a) Designed such disclosure controls and procedures or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal controls over financial reporting; and
- 5) The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 1, 2024

By: /s/ Tom Kubota  
Tom Kubota  
Principal Financial Officer

**EXHIBIT 32.1**

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT BY  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the quarterly report on Form 10-Q of Pacific Health Care Organization, Inc. (the "Company") for the quarter ended September 30, 2024, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of his knowledge:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Date: November 1, 2024

By: /s/ Tom Kubota  
Tom Kubota  
Chief Executive Officer and Principal Financial Officer