

---

---

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

---

**FORM 10-K**

---

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

For the fiscal year ended: **December 31, 2019**

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 I.D. No.)

**1201 Dove Street, Suite 300**

**Newport Beach, California**

(Address of principal executive offices)

**92660**

(Zip Code)

Registrant's telephone number, including area code: **(949) 721-8272**

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

Title of each class	Trading symbol	Name of each exchange on which registered
<b>None</b>	<b>N/A</b>	<b>N/A</b>

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

**\$.001 par value, common voting shares**

(Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes ☐

No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act.

Yes ☐

No ☒

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 past 12 months (or for such 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 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 the 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 not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ☐

No ☒

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant’s most recently completed second fiscal quarter was approximately \$6,530,130.

As of March 25, 2020, the issuer had 12,800,000 shares of its \$.001 par value common stock outstanding.

Documents incorporated by reference: None

---

## Table of Contents

	<u>Page</u>
<b>PART I</b>	
Item 1. <a href="#"><u>Business</u></a>	5
Item 1A. <a href="#"><u>Risk Factors</u></a>	10
Item 1B. <a href="#"><u>Unresolved Staff Comments</u></a>	15
Item 2. <a href="#"><u>Properties</u></a>	15
Item 3. <a href="#"><u>Legal Proceedings</u></a>	16
Item 4. <a href="#"><u>Mine Safety Disclosures</u></a>	16
<b>PART II</b>	
Item 5. <a href="#"><u>Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u></a>	17
Item 6. <a href="#"><u>Selected Financial Data</u></a>	18
Item 7. <a href="#"><u>Management’s Discussion and Analysis of Financial Condition and Results of Operation</u></a>	18
Item 7A. <a href="#"><u>Quantitative and Qualitative Disclosures About Market Risk</u></a>	24
Item 8. <a href="#"><u>Financial Statements and Supplementary Data</u></a>	25
Item 9. <a href="#"><u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u></a>	40
Item 9A. <a href="#"><u>Controls and Procedures</u></a>	40
Item 9B. <a href="#"><u>Other Information</u></a>	41
<b>PART III</b>	
Item 10. <a href="#"><u>Directors, Executive Officers and Corporate Governance</u></a>	42
Item 11. <a href="#"><u>Executive Compensation</u></a>	45
Item 12. <a href="#"><u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u></a>	48
Item 13. <a href="#"><u>Certain Relationships and Related Transactions, and Director Independence</u></a>	50
Item 14. <a href="#"><u>Principal Accounting Fees and Services</u></a>	50
<b>PART IV</b>	
Item 15. <a href="#"><u>Exhibits, Financial Statement Schedules</u></a>	52
Item 16. <a href="#"><u>Form 10-K Summary</u></a>	53
<a href="#"><u>SIGNATURES</u></a>	54

---

## PACIFIC HEALTH CARE ORGANIZATION, INC.

Throughout this Annual Report on Form 10-K, unless the context indicates otherwise, the terms, “we,” “us,” “our” or “the Company” refer to Pacific Health Care Organization, Inc., (“PHCO”) and our wholly-owned subsidiaries Medex Healthcare, Inc. (“Medex”), Industrial Resolutions Coalition, Inc. (“IRC”), Medex Managed Care, Inc. (“MMC”), Medex Medical Management, Inc. (“MMM”), Medex Legal Support, Inc. (“MLS”) and Pacific Medical Holding Company, Inc. (“PMHC”).

### CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”) and Section 21E of the Securities Exchange Act of 1934, as amended, (the “Exchange Act”) that are based on our management’s beliefs and assumptions and on information currently available to our management. For this purpose any statement contained in this Annual Report on Form 10-K that is not a statement of historical fact may be deemed to be forward-looking, including, but not limited to statements about future demand for the products and services we offer, changes in the composition of the products and services we offer, the impact of the loss of one or more major customers, our ability to add new customers to replace the loss of current customers, the regulatory environment in which we operate, future revenues, expenses, results of operations, liquidity and capital resources or cash flows, or our actions, intentions, plans, strategies and objectives and other risks and uncertainties detailed elsewhere in this Annual Report on Form 10-K. Without limiting the foregoing, words such as “believe,” “expect,” “project,” “intend,” “estimate,” “budget,” “plan,” “forecast,” “predict,” “may,” “will,” “could,” “should,” or “anticipate” or comparable terminology are intended to identify forward-looking statements. These statements by their nature involve known and unknown risks, uncertainties, and other factors that may cause our actual results, performance or achievements or the industry to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such factors include, but are not limited to, economic conditions generally and in the industry in which we and our customers participate; the impact on our business of the recent outbreak of novel coronavirus (COVID-19), including the ability of our workforce to meet the needs of our clients while complying with federal and state social distancing, lockdown and other mandates; cost reduction efforts by our existing and prospective customers; competition within our industry, including competition from much larger competitors; business combinations; legislative requirements or changes which could render our services less competitive or obsolete; our failure to successfully develop new services and/or products either organically or through acquisition, or to anticipate current or prospective customers’ needs; our ability to retain existing customers and to attract new customers; price increases; employee limitations; and delays, reductions, or cancellations of contracts we have previously entered.

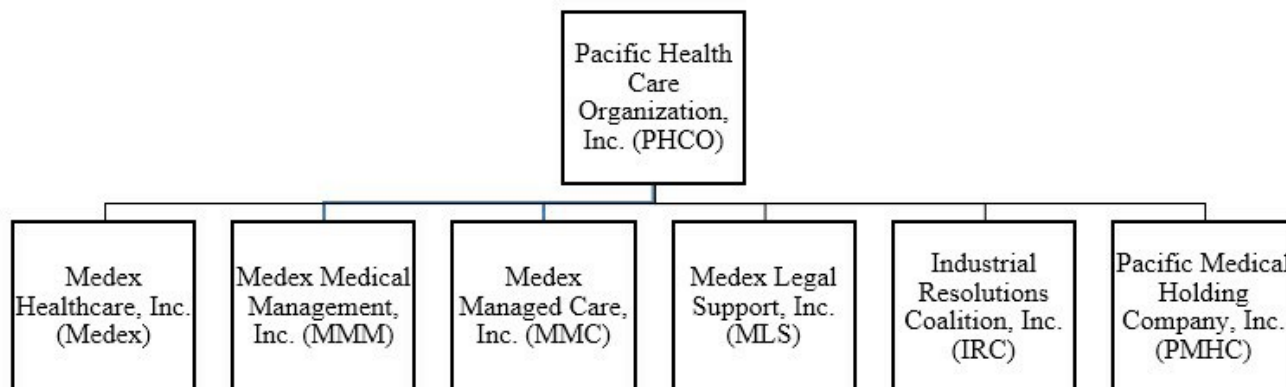
Forward-looking statements are predictions and not guarantees of future performance or events. Forward-looking statements are based on current industry, financial and economic information, which we have assessed but which by its nature, is dynamic and subject to rapid and possibly abrupt change. Our actual results could differ materially from those stated or implied by such forward-looking statements due to risks and uncertainties associated with our business. We hereby qualify all our forward-looking statements by these cautionary statements. These forward-looking statements speak only as of their dates and should not be unduly relied upon. We undertake no obligation to publicly update or revise any forward-looking statements whether as a result of new information, future events or otherwise (other than pursuant to reporting obligations imposed on registrants pursuant to the Exchange Act) to reflect subsequent events or circumstances.

The following discussion should be read in conjunction with our consolidated financial statements and the related notes contained elsewhere in this Annual Report on Form 10-K and in our other filings with the Securities and Exchange Commission (the “Commission”).

---

**PART I****ITEM 1. BUSINESS**

We are workers' compensation cost containment specialists providing a range of services principally to California employers and claims administrators. The Company was incorporated under the laws of the state of Utah in April 1970, under the name Clear Air, Inc. The Company changed its name to Pacific Health Care Organization, Inc., in January 2001. In February 2001, the Company acquired Medex Healthcare, a California corporation organized in March 1994, in a share for share exchange. Medex is a wholly-owned subsidiary of the Company. Medex is in the business of managing and administering both Health Care Organizations ("HCOs") and Managed Provider Networks ("MPNs") in the state of California. In August 2001, we formed IRC, a California corporation, as a wholly owned subsidiary of PHCO. IRC oversees and manages the Company's Workers' Compensation carve-outs services. In June 2010, the Company acquired MLS, a Nevada corporation incorporated in September 2009. MLS offers lien representation services and Medicare set-aside ("MSA") services. In February 2012, we incorporated MMM in the state of Nevada, as a wholly-owned subsidiary of the Company. MMM is responsible for overseeing and managing medical case management services. In March 2011, we incorporated MMC in the state of Nevada, as a wholly-owned subsidiary of the Company. MMC oversees and manages the Company's utilization review and managed bill review services. In October 2018, we incorporated PMHC in the state of Nevada, as a wholly-owned subsidiary, to act as a holding company for future potential acquisitions.

**Business of the Company**

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

Our business objective is to deliver value to our clients that reduces their workers' compensation related medical claims expense in a manner that will assure that injured employees receive high quality healthcare that allows them to recover from 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 medical treatment costs.

Our core service focuses on the reduction of medical treatment costs by enabling our client/employers to share control over the medical treatment process. This control is obtained by participation in one of our medical treatment networks. We hold several valuable government-issued licenses to operate medical treatment networks. Through Medex we hold two of the total of seven licenses issued by the State of California to establish and manage a Health Care Organization ("HCO") within the state of California. We also hold approvals issued by the State of California to act as a Medical Provider Network ("MPN"). Our HCO and MPN programs provide our client/employers with provider networks within which the client/employer 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 the necessary back-to-work rehabilitation and training they need. We also offer medical bill and utilization review that provide oversight of medical billing and treatment requests, along with medical case management, which keeps medical treatment claims progressing to a resolution and assures treatment plans are aligned from a medical perspective.

Our clients include self-administered employers, insurers, third party administrators, municipalities and others. Our principal clients are located in the State of California where the high cost of workers' compensation insurance is a critical problem for employers. We have processed medical bill reviews in 23 states. Our provider networks are composed of experts in treating worker injuries.

### Health Care Organizations

An HCO is a network of health care professionals specializing in the treatment of workplace injuries and in back-to-work rehabilitation and training of our clients' employees. HCOs were created to appeal to injured workers, while providing substantial savings to the client/employers. In most cases, our HCO programs give the client/employer 180 days of medical control in a provider network within which the client/employer can direct the administration of the claim. The injured worker may change physicians once during this period, but the worker may not leave the provider network. The increased length of time during which the client/employer has control over administration of the claim is designed to decrease the incidence of fraudulent claims and disability awards. The right to control treatment within a network is also based upon the notion that if there is more control over medical treatment there will be more control over getting injured workers healthy and back on the job. An outcome would be to control total claim treatment cost and related workers' compensation insurance premiums.

Our HCO licenses allow us to cover the entire state of California. Our clients can offer their injured workers a choice of enrolling in an HCO with a network managed by primary care providers which requires primary care physicians to make referrals to needed specialists or in an HCO where injured workers do not need any prior authorization to be seen and treated by specialists.

Our HCO networks have contracted with approximately 3,900 individual medical providers and clinics, as well as hospitals, pharmacies, rehabilitation centers and other ancillary services enabling our HCOs to provide comprehensive medical services throughout California. Our provider networks are composed of experts in treating worker injuries. We are continually reviewing and enhancing these networks based upon the nominations of new clients and the approvals of their claim's administrators. All network provider credentials are reviewed and approved by our subsidiary Medex.

HCO guidelines impose certain medical oversight, reporting, information delivery and usage fees upon HCOs. These requirements increase the administrative costs and obligations on HCOs over those applicable to an MPN, although the obligations and cost differentials between the two types of organizations have been narrowing over the past few years.

### Medical Provider Networks

Like an HCO, an MPN is a network of health care professionals, but MPN networks do not require the same level of medical expertise in treating workplace injuries. Under an MPN program the client/employer dictates which physician the injured employee will see for the initial visit. Thereafter, the MPN program grants the employee discretion to choose which physician in the network will continue treatment of the claim; the client/employer is benefited by having that discretion limited for the life of the claim to physicians within the MPN network. In addition, the California MPN statute and regulations allow the injured employee to dispute treatment decisions, provide for second and third medical opinions, and then permits case review by an independent medical reviewer, whose decision can result in the client/employer losing control over medical treatment of the employee.

Unlike our HCOs, our MPN does not require our clients to pay annual enrollment fees, nor does it require our clients to comply with annual enrollment notice delivery requirements. As a result, there are fewer administrative costs associated with an MPN program, which allows our MPN to market its services at a lower cost to employers than our HCOs. For this reason, many clients may opt to use the less complicated MPN even though it provides client/employers fewer rights to control medical treatment of employee injury claims.

### HCO + MPN

As a licensed HCO and approved MPN, in addition to offering HCO and MPN programs, we are also able to offer our client/employers a combination of the HCO and MPN programs. Under this plan model a client/employer can enroll its employees in the HCO program, and then prior to the expiration of the 180-day treatment period under the HCO program, the client/employer can enroll the employee into the MPN program. This allows client/employers to take advantage of both programs. To our knowledge, Medex is currently the only entity that offers clients/employers and HCO+MPN combination program.

### Medical Case Management

Medical case management keeps medical treatment claims progressing to a resolution and assures treatment plans are aligned from a medical perspective. Medical oversight is a collaborative process that assesses plans, implements, coordinates, monitors and evaluates the options and services required to meet an injured worker's health needs. Medical case managers act as a liaison between the injured worker, claims adjuster, medical providers and attorneys to achieve optimal results for injured workers and employer/clients.

## [Table of Contents](#)

Our credentialed nurses have expertise in various clinical areas and extensive backgrounds in workers' compensation matters. This combination allows our nurses the opportunity to facilitate medical treatment while understanding the nuances of workers' compensation up to and including litigation. By providing these services our client/employers contribute to effective delivery of medical treatment assuring the injured worker receives quality treatment in a timely and appropriate manner to return the worker to employment.

### [Workers' Compensation Carve-outs](#)

Some employers can opt out of the standard workers' compensation regulatory scheme through carve-out agreements that comply with state law requirements. We facilitate the negotiation of legal agreements for the implementation of Workers' Compensation carve-outs for California client/employers and provide services to the carve-out agreement parties. Under such carve-out agreements certain clients can access our HCOs, MPN and medical case management program.

California law permits employers and employees to establish alternative dispute resolution systems to resolve disputes in the workers' compensation context. These arrangements are called carve-outs because the employers and employees covered by such agreements are carved out from the standard state workers' compensation scheme, provided applicable statutory and regulatory requirements covering the administration of carve-out programs are met. These carve-out agreements are made between client/employers and the collective bargaining units representing covered client employees.

### [Ancillary Services](#)

Beyond the core services we provide to facilitate client/employers involvement in employee medical treatment claims administration and patient treatment options, we also provide to our HCO and MPN clients several claims-related services that bring efficiencies to claim processing and management that further reduce the overall burden of workers' compensation claims resolution. These services include various back office type functions that assure cost efficiency and accuracy in claim processing, claim reimbursement and claim dispute resolution.

All our services are fully integrated to allow for partial and full bundling of services and sharing of information across all our platforms. Our bundled services have allowed some client/employers to achieve up to a 70% reduction in the cost of injury claim resolution while maintaining superior treatment for injured workers. Seamless integration between services enhances cost-savings by providing concurrent access to complete, accurate and timely information relating to our HCOs, MPNs or PPO networks and all our ancillary services as claims are managed to completion. Among such services are:

#### [Utilization Review](#)

Using skilled staff and an automated review system, we deliver utilization review services to self-insured clients, insurance companies and public entities. Utilization review is designed to evaluate the medical necessity of proposed treatment by comparing medical records against accepted medical guidelines. Its purpose is to serve as a safeguard against liability for medical costs that are not medically appropriate or approved by the relevant medical and legal authorities and the payor. Reviews are conducted at the appropriate qualification level for the request and the proposed determination, and within the timelines set by the relevant regulations. We comply and participate with regulatory audits of Utilization Review Organizations, and in accordance with some state laws, maintain a full accreditation by URAC.

#### [Medical Bill Review](#)

We provide professional analysis of medical provider services and equipment billing to ascertain proper reimbursement. Such services include, but are not limited to, 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. These services can result in significant network savings.

#### [Lien Representation](#)

When a worker is injured in the scope of employment the client/employer is required to provide workers' compensation benefits. If the provider of services is not paid because the services were not authorized, or if the provider disputes the amount of reimbursement, the provider may file a lien against the workers' compensation claim. We provide comprehensive lien representation services from negotiation through litigation and petitions for reconsideration.

### Legal Support

We provide expert witness testimony before the California Workers Compensation Appeals Board. The fees include reimbursement of witness fees, travel and lodging expenses.

### Medicare Set-aside

We provide Medicare set-aside services for workers' compensation claims which is a financial agreement that allocates a portion of a workers' compensation settlement to pay for future medical services related to the work-place injury, illness, or disease. The purpose of the set-aside arrangement is to provide funds to the injured party to pay for future medical expenses that would otherwise be covered by Medicare. This program affords our client/employers an effective way to overcome complications after settlement and avoids unnecessary costs attached to the claim.

### **Marketing and Customers**

We provide services to virtually any size employer in the state of California as well as insurers, third party administrators, self-administered employers, municipalities and other industries. We also provide some client/employers utilization review, medical case management and medical provider network, medical bill review, network access fee services and Medicare set-aside services outside the state of California.

Marketing and sales are achieved at multiple levels from client referrals, conference presentations, responding to RFPs, and advertisement. We service both local and national accounts, however, with an emphasis on California focused markets. Our sales and marketing activities are conducted by account managers with the assistance of our executive team members.

During 2019, Preferred Operator Group, LLC (POG) and Hilton Worldwide accounted for approximately 26% and 14% respectively, of our total sales.

### **Competition**

We were one of the first commercial enterprises capable of offering HCO services and MPN services in California. Now there are many companies who compete in this market. Many of these competitors are larger than PHCO and may have greater financial, research and marketing experience and resources than we do, and they may therefore represent substantial long-term competition. As of December 31, 2019, in California there were seven certified health care organization licenses issued to five companies. We own two of the seven licenses and have four possible direct HCO competitors. Only three of these HCO competitors, however, are currently writing HCO business due to the complexity of the HCO regulations. There are minimal requirements for establishing MPNs and therefore, as of December 31, 2019, there were 2,447 active MPNs in the State of California according to the DWC MPN website. Of these, we have received approval for and administer 37 MPNs.

We compete on both quality of service delivery and price of services. We maintain quality of service by virtue of the training, skill and experience of our professional staff and outside consultants. We compete on price through our integrated and robust information technology systems. We focus our business primarily to those employers and payers who use our HCO and/or MPN services. We anticipate that this focus will keep most of this business stable and renewable. However, periodically we expect that some large clients may establish the in-house capability of performing the services we offer, as this has occurred in the past. If we are unable to compete effectively, it will be difficult for us to retain current customers or add new customers, and our business, financial condition, and results of operations could be materially and adversely affected.

We rely on our well-trained and knowledgeable in-house professionals to develop service offerings aligned with market need. We target the needs of insurers, third party administrators and self-administered employers. We contract directly with medical providers based on quality determinations rather than the provision of discounted medical services. We believe this provides us a competitive advantage because we can market a direct relationship with providers who have demonstrated expertise in treating work related injuries and writing credible medical reports rather than relying on third party relationships or discounts alone.

We offer both HCO and MPN programs to potential clients, as well as an HCO/MPN combination model, which we believe also gives us a competitive advantage, because of the way the network was created. While some of our competitors offer either HCO or MPN services, to our knowledge, none of our competitors offer this type of HCO/MPN combination model, nor, in our opinion, do they have the legal and medical expertise to administer one.



## **Governmental Regulation**

Managed care programs for workers' compensation are subject to various laws and regulations. The nature and degree of applicable regulation varies by state and by the specific services provided. Parties that provide or arrange for the provision of healthcare services are subject to numerous complex regulatory requirements that govern many aspects of their conduct and operations.

Because managed healthcare is a rapidly changing and expanding industry and the cost of providing healthcare continues to increase, it is possible that the applicable federal and state regulatory frameworks will expand to have a greater impact upon the conduct and operation of our business.

As discussed above, the provision of workers' compensation managed care in the state of California is governed by legislation and secondary regulations. We are required to be licensed or receive regulatory approval to operate our networks in California. California and other jurisdictions require individuals who engage in claim adjusting and certain other insurance service activities to be personally licensed. In many jurisdictions, licensing laws and regulations generally grant broad discretion to supervisory authorities to adopt and amend regulations and to supervise regulated activities.

The services we provide have developed largely in response to legislation or other governmental action. Changes in the legislation regulating workers' compensation may create greater or lesser demand for the services we offer or require us to develop new or modified services to meet the needs of the marketplace and compete effectively. We could also be materially and adversely affected if the state of California were to elect to reduce the extent of medical cost containment strategies available to insurance companies and other payers or adopt other strategies for cost containment that would not support demand for our services. In order to obviate such possibilities as much as possible, we have engaged a California-based lobbyist with expertise in workers' compensation. When there is proposed legislation in California, even in the discussion stage, that might affect our business, we are immediately notified and are often included as stakeholders for preliminary discussions.

There has been considerable discussion of healthcare reform at both the federal and state level in recent years. Due to uncertainties regarding the ultimate features of reform initiatives and the timing of their enactment, we cannot predict which, if any, reforms will be adopted, when they may be adopted, or what impact they may have on our business or within the industry in which we participate. It is current thinking that it is doubtful that any such healthcare reform would significantly impact workers' compensation, which is primarily a disability program, not medical.

## **Employees**

Including the employees of our subsidiaries, as of March 25, 2020 we employed 38 full-time employees. We also use the services of several consultants. Over the next twelve months, we anticipate hiring additional employees only if business revenues increase and our operating requirements warrant such hiring.

## **Reports to Security Holders**

We file Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, proxy and information statements and other filings pursuant to Sections 13, 14 and 15(d) of the Exchange Act, and amendments to such filings with the Commission. The public may read and copy any materials we file with the Commission at its Public Reference Room at 100 F Street N.E., Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The Commission maintains its internet site [www.sec.gov](http://www.sec.gov), which contains reports, proxy and information statements and our other Commission filings. We also post an electronic copy of our Annual Report on Form 10-K on our website [www.pacifichealthcareorganization.com](http://www.pacifichealthcareorganization.com), which you can view or download free of charge. Materials posted on our website are not part of this Annual Report on Form 10-K.

## ITEM 1A. RISK FACTORS

*You should consider carefully the following risk factors, together with the other information contained in this Annual Report on Form 10-K and the other reports we file with the Commission, in evaluating us or making an investment in our common stock. The risks described below are the material risks, although not the only risks, relating to us and our common stock. If any of the following risks and uncertainties develop into actual material events, it could have a material adverse effect on our business, operations and financial condition. You should not draw any inference as to the magnitude or likelihood of any particular risk from its position in the following discussion.*

***A significant percentage of our revenue is generated from a few customers, the loss of one or more of which could have a material impact on our results of operations, cash flows and financial condition.***

A significant portion of operating revenue is received from a relatively small group of customers. Combined sales for two customers accounted for approximately 40% and 40% of our total revenue in 2019 and 2018, respectively.

Most of our customer contracts permit either party to terminate without cause. Many organizations in the insurance industry have consolidated and this could result in the loss of one or more of our customers through a merger or acquisition. Additionally, we could lose customers due to competitive pricing pressures, failure to maintain the quality of the services we provide, our inability to retain sufficient staffing, as a result of a health crises or natural disaster or any number of other reasons. If several customers terminate their contracts, or do not renew or extend their contracts with us, our results could be materially adversely affected.

We cannot guarantee that significant customers will not, at some point, terminate or reduce our services. The loss of one or more significant customers has historically had an adverse impact on our business, results of operations, cash flows and financial condition, sometimes materially, until such time as we were able to retain new customers to replace them. While we continue to work to lessen this risk, we believe this will continue to be a risk into the foreseeable future.

***Our revenues may decline if we cannot compete successfully in an intensely competitive market.***

We target our products to employers seeking to control the cost of employee workers' compensation claims. We face competition from a variety of companies and the markets for our services are fragmented and competitive. Our competitors include national managed care providers, preferred provider networks, smaller independent providers and insurance companies. Many of our current and potential competitors have significantly greater financial, technical, marketing, and other resources than we do. As a result, our competitors may be able to respond more quickly to new or emerging ways to manage treatment costs, including enhanced technology, changes in regulations and standards, and shifts in customer requirements. We believe that as managed care techniques continue to gain acceptance in the marketplace, our competitors will increasingly consist of insurance companies, large workers' compensation managed care service companies and other significant providers of managed care products. These competitors may also be able to devote greater resources to the development, promotion and sale of their services and may be able to deliver competitive services or solutions at a lower end user price. Any of these competitive pressures could have a material adverse effect on our business, results of operations and financial condition.

***Our business is driven substantially by the relation between the value we provide and the amount we charge for that value. If the scope and quality of our services lag behind the market or lower cost participants can provide competitive services at lower prices, we may lose client/employers which could have an adverse impact on our results of operations and financial condition.***

As noted in the description of business, we are in the business of assisting our client/employers control the cost of their employee workers' compensation claims. While we believe that factors, including the quality of care provided to the employee, the rapidity at which the employee returns to work, and the service provided to the customer, play a part in the selection and retention process of our customers, we understand that price is a primary determining factor in whether client/employers select or retain our services. While our competitors may offer direct fees less than those we charge, they have traditionally added fees to their other associated services and thus raised total cost of their services. If our competitors can reduce the cost at which they provide services, we anticipate that we would have to likewise attempt to reduce the cost at which we provide our services or risk losing employer customers. Either outcome could have a material adverse impact on our business, results of operations and financial condition.

***Our financial performance is tied to the quality of the information technology platform we use to provide our services and communicate with our clients. The information technology business evolves rapidly, and advancements can disrupt or alter the competitive environment.***

Effective and competitive delivery of our services is increasingly dependent upon information technology resources and processes, both those provided internally as well as those provided through third-party vendors. In addition to better serving customers, the effective use of technology increases efficiency and enables us to reduce costs. Our future success will depend, in part, on our ability to address the needs of our client/employers by using technology to provide services to enhance customer convenience, as well as to create additional efficiencies in our operations. Many of our competitors have greater resources to invest in technological improvements. Additionally, as technology in the industry changes and evolves, keeping pace may become increasingly complex and expensive. There can be no assurance that we will be able to effectively implement new technology-driven products and services, which could reduce our ability to compete effectively.

***An interruption in our ability to access, review or deliver critical data may cause customers to cancel their service and/or may reduce our ability to effectively compete.***

Certain aspects of our business are dependent upon our ability to store, retrieve, process and manage data and to maintain and upgrade our data processing capabilities. Interruption of data processing capabilities for any extended length of time, loss of stored data, programming errors or other system failures could cause our client/employers to cancel their service and could have a material adverse effect on our business and results of operations.

In addition, we expect that a considerable amount of our future growth will depend on our ability to process and manage claims data more efficiently and to provide more meaningful healthcare information to customers and payors of healthcare. There can be no assurance that our current data processing capabilities will be adequate for our future growth, that we will be able to efficiently upgrade our systems to meet future demands, or that we will be able to develop, license or otherwise acquire software to address these market demands as well or as timely as our competitors.

***Declines in workers' compensation claims could materially impact our financial condition and results of operations.***

Within the past few years, as the labor market becomes less labor intensive and more services oriented, there are fewer work-related injuries. Additionally, employers are being more proactive to prevent injuries. Changes in the strength of the economy also affect the size and activity of the work force and consequently the level of workers' compensation claims. In addition to working with our client/employers, we also provide outsource services to payors of worker's compensation benefits. These payors include third party administrators, insurance companies, self-insured, self-administered employers and municipalities.

If the number of workers' compensation continues to decrease or if payors reduce the amount of work they outsource in an already flat-to-declining market, our business financial condition and results of operations could be affected negatively.

***Failure to maintain our licenses and/or accreditation would have material impact on our business.***

We require state issued licenses to operate our HCOs and approvals of our MPN networks in the State of California. If the State of California were to determine that we have failed to comply with the licensure requirements, it has the authority to deny, suspend or revoke our licenses. If our licenses were suspended or revoked, we would no longer be able to operate our HCO and/or MPN networks. In addition to the reduction in revenue we would experience from the loss of our HCO and/or MPN operations, the other services we offer would likely also be impacted negatively as many of the customers for our utilization review, medical bill review and medical case management services are derived from our HCO and MPN clientele. The State of California requires workers compensation organizations performing utilization review in California to be accredited by URAC. If we were to lose our URAC accreditation, we would experience a reduction in utilization review revenue in California and other states. Other states in which we currently perform utilization review or utilization management each have different standards for authorizing UR organizations. If we were to fail to meet those varied standards or experience administrative difficulty managing the maintenance of these various certifications, we could experience a reduction in utilization review revenue and/or fines or penalties.

***If we are successful in making strategic acquisitions, there exists a risk that an acquisition could have a negative impact on our business.***

To date, we have been unsuccessful in our efforts to identify suitable acquisition candidates. Even if we are successful identifying and making strategic acquisitions, there can be no assurance such acquisitions will positively impact our business and results of operations. Acquisitions are subject to numerous risks. Expenses arising from our efforts could have a negative impact on operating results, at least in the short term. If such transactions do occur, there can be no assurance that we will be able to integrate effectively the acquired businesses. In addition, any such transactions would be subject to various risks associated with the acquisition of businesses, including, but not limited to, the following:

- an acquisition may (i) negatively impact our results of operations because it may require incurring large one-time charges, substantial debt or liabilities; (ii) require the amortization or write down of amounts related to deferred compensation, goodwill and other intangible assets; or (iii) cause adverse tax consequences, substantial depreciation, or deferred compensation charges;
- we may encounter difficulties in assimilating and integrating the businesses, technologies, products, services, personnel, or operations of companies that are acquired, particularly if key personnel of acquired companies decide not to work for us;
- an acquisition may disrupt ongoing business, divert resources, increase expenses, and distract management;
- the acquired businesses, products, services, or technologies may not generate sufficient revenue to offset acquisition costs;
- we may have to issue equity or debt securities to complete an acquisition, which would dilute the position of stockholders and could adversely affect the market price of our common stock; and
- the acquisitions may involve the entry into a geographic or business market in which we have little or no prior experience.

There can be no assurance that we will be able to identify or consummate any future acquisitions on favorable terms, or at all, or that any future acquisitions will not have an adverse impact on our business or results of operations. If suitable opportunities arise, we may finance such transactions through debt or equity financing. There can be no assurance, however, that such debt or equity financing would be available to us on acceptable terms when, and if, suitable strategic opportunities arise.

***Our business is subject to online security risks, and if we are unable to safeguard the security and privacy of confidential data, our reputation and business could be harmed.***

Our services involve the collection and storage of confidential information and the transmission of this information. For example, we collect personal information, information regarding medical history, and information regarding medical treatments. In certain cases, such information is provided to third parties, and we may therefore be unable to control the use of such information or the security protections employed by such third parties. We may be required to expend significant capital and other resources to protect against security breaches or to alleviate problems caused by security breaches. With the outbreak of COVID-19 and the federal and state mandates implemented to control its spread, we have taken steps to allow our workforce to render critical business functions remotely. Many of these measures are being deployed for the first time and there is no guarantee the data security and privacy safeguards we have put in place will be completely effective or that we will not encounter some of the common risks associated with employees accessing Company data and systems remotely. Despite our implementation of security measures, techniques used to obtain unauthorized access or to sabotage systems change frequently. As a result, we may be unable to anticipate these techniques or to implement adequate preventative measures. Any compromise or perceived compromise of our security (or the security of our third-party service providers who have access to the confidential information we maintain) could damage our reputation and our relationship with our customers, third-party administrators, insurers and enrollees, could reduce demand for our services and could subject us to significant liability as well as regulatory action. In addition, as new data security laws are implemented, or our customers determine to impose new requirements on us relating to data security, we may be unable to timely comply with such requirements, or such requirements may not be compatible with our current processes. Changing our processes to address new data security laws could be time consuming and expensive and the failure to timely implement required changes could result in our inability to sell our services.

***Efforts to minimize the use of certain healthcare cost containment techniques may cause our revenue to decrease.***

Within the industry there has been a movement among certain healthcare providers to resist the use of cost containment techniques. Some have even resorted to litigation to challenge the application of particular cost containment measures. This includes challenges to insurers' claims adjudication and reimbursement decisions. While these lawsuits do not involve us or any services we currently offer directly, the impact of such cases may negatively impact our cost containment services revenue.

***Increased use of early intervention services could negatively impact our revenue.***

Our revenue could be negatively impacted by the increased use of early intervention services such as injury occupational healthcare, first notice of loss, and telephonic case management services. The implementation at an early stage in the claim by healthcare payors of these early intervention services can lead to decreases in the average length of, and the total costs associated with, a healthcare claim, which may reduce or even eliminate the need for the later stage network and healthcare management services we provide.

***Certain aspects of the recent comprehensive tax reform could adversely affect our business and financial condition.***

In 2017 U.S. tax reform legislation referred to as the Tax Cuts and Jobs Act of 2017 (the "TCJA"), went into effect significantly changing how the U.S. taxes corporations. The TCJA resulted in an overall benefit to us in 2018, as our effective federal tax rate decreased from 34% in 2017 to 21% in 2018. We believe the full impact of this comprehensive tax reform will not be fully understood for some time. While the TCJA has had a positive impact on our business to date, we continue to analyze and monitor its impact for future periods. There is no assurance that the U.S. Treasury Department, the Internal Revenue Service, and other standard-setting bodies will interpret or apply the provisions of the TCJA the same way we have. There is no assurance that future guidelines, interpretations and regulations will not result in the application of the TCJA in a manner that is different from and potentially materially less favorable to the position we have taken. If that becomes the case, our results of operations and financial condition could be materially negatively impacted.

***If we are unable to continue to attract and retain key employees with the skills our business requires, our business could be impacted negatively.***

We compete with other workers' compensation managed care companies and healthcare providers in recruiting qualified management and staff personnel. Employees with industry expertise are critical to our competitive strategy. There is intense competition for the services of such persons. We cannot guarantee that we will be able to attract and retain such persons if our competitors, many of whom have greater financial resources and larger organizations than ours, offer higher salaries, better benefit packages and broader opportunities than we are able to offer. If we are unable to attract or retain key employees, our business and financial condition could be affected.

***Our cost of operation and/or demand for our services may be negatively impacted by changes in government regulations.***

Our primary business operations are subject to licensing and other regulatory requirements in California, including minimum qualification standards for personnel, confidentiality, internal quality control and dispute resolution procedures. The cost of compliance with these regulatory programs can increase our costs of operation, which may make it difficult for us to compete with other available alternatives for healthcare cost control. The healthcare and workers' regulatory environment is constantly evolving. While we try to be involved in the legislative process and to stay informed on industry developments, we cannot predict what additional government initiatives affecting our business, if any, may be promulgated in the future. We cannot assure that we will always be able to adapt to new or modified regulatory requirements or to keep in force necessary licenses and government approvals. Proposals for healthcare legislative reforms are regularly considered at the federal and state levels. To the extent that such proposals affect workers' compensation, such proposals may render us unable to render services profitably, reduce demand for our services, or require us to develop new or modified services. Any of these factors could materially impact our results of operations.

For example, in January 2020, California's "gig economy law" ("AB5") came into effect. This law is having a significant impact on businesses throughout the state, as it imposes a high bar to classifying an individual as an independent contractor rather than an employee. Even vendors who are incorporated or otherwise established as limited liability entities are subject to the AB5 evaluation, with liability arising for the hiring entity. As a business of our size, with the expansive nature of our services, and in the multiple geographic regions we serve, MEDEX relied in small part on the services of independent contractors, classified properly before AB5. In response to AB5, MEDEX has had to cease usage of some vendors who did not pass AB5's test(s) and use either internal resources or other vendors in order to meet the needs of some of our business operations. The ongoing effect of our compliance with AB5 includes administrative burden, potentially higher costs, and diminished ability to meet some business needs in a timely manner.

***Litigation and legal liability may adversely affect our financial condition and results of operations.***

In instances where we make recommendations concerning the appropriateness of providers' medical treatment plans of patients, we could potentially be exposed to legal claims from adverse medical outcomes. We do not believe we engage in the practice of medicine or medical services. Similarly, we do not grant or deny claims for payment of benefits. Notwithstanding this, there is nothing that bars someone from filing litigation claiming that the services we provide constitute the practice of medicine or the delivery of medical services.

In addition, we cannot assure that we will not be the subject to other litigation, including but not limited to, being joined in litigation brought against our customers in the managed care industry. While we maintain professional liability insurance and such other coverages as we believe are reasonable considering our experience to date, this coverage may be insufficient. We also cannot assure you that insurance companies will always make insurance available to us at a reasonable cost to protect us from significant future liability. If we become subject to litigation that may adversely affect our business, financial condition or results of operations,

***The price and trading volume of our common stock may be volatile, which may negatively affect the value and liquidity of your shares.***

The market price of our common stock may be highly volatile and subject to wide fluctuations. During the twelve-month period ended December 31, 2019, the low bid price for our common stock was \$0.88 per share and the high bid price was \$1.36 per share, (on an as adjusted basis to reflect the four-shares-for-one-share forward stock split that became effective on January 6, 2020). Our common stock is currently quoted on the OTCQB, which is generally a thinly traded market that lacks the liquidity of certain other public markets. Additionally, there are a limited number of our shares of common stock outstanding, which may further limit the liquidity of our shares. Moreover, in the past, stock markets have experienced price and volume fluctuations that have particularly affected companies in the healthcare and managed care markets resulting in changes in the market price of the stock of many companies, which may not have been directly related to the operating performance of those companies. We cannot assure you that the market price for our common stock will not fluctuate or decline significantly in the future or that there will be sufficient trading volume in our common stock to allow you to sell your shares in the market when you desire to do so.

***Our Chief Executive Officer, President and Chairman of the board of directors has the ability to exercise significant control over the Company.***

Tom Kubota, our Chief Executive Officer, President and Chairman of the board of directors beneficially owns 7,867,000 shares, or approximately 61.5%, of our outstanding common stock. Since 2008, Mr. Kubota has held a majority of our outstanding common stock and voting control of the Company. Mr. Kubota also holds 16,000 shares of our Series A preferred stock, which represents 100% of the outstanding shares of Series A preferred stock. In most matters, our Series A preferred stock is treated on parity with our common stock on a share-for-share basis, with the exception that each share of Series A preferred stock is entitled to 20,000 votes of common stock on all matters submitted to a vote of our common stock holders. The Series A preferred stock is convertible to shares of common stock on a one share for one share basis at the election of the holder thereof. This capital structure may be viewed positively, negatively or indifferently by the market, investors and potential acquisition targets. If, it is viewed negatively, it could affect the liquidity and/or market price for our common stock, our ability to merger and acquisition or capital raising transactions.

***The spread of the coronavirus (COVID-19) threatens internal business operations, clients' use of our services, the availability of the facilities and medical providers we contract with to participate in our networks, stock market activity, and the public and private infrastructure we rely on.***

In late 2019 COVID-19 was identified after causing pneumonia and flu-like symptoms in a cluster of cases in China. By February 2020, the virus has spread to many countries around the world, including the United States and California, where the majority of our clients operate, and the Southern California area where the majority of our employees live and work. On March 19, 2020, the governor of California issued a stay-at-home order except for essential services, such as grocery stores, gas stations and banks, which can remain open. This order is to remain in effect until further notice. Our revenue is largely dependent upon the number of injured workers we treat and help return to work. As the United States federal and California State governments continue to impose measures to stem the spread of COVID-19 those efforts, at least temporarily, seems likely to limit the number of employees working, related workplace injuries and the number of employee injuries we treat. If that is the case, this could negatively impact the revenue we generate from the cost containment services we provide, at least in the shorter term. Also, because of the highly infectious nature of COVID-19, it is not unforeseeable that some percentage, perhaps even a significant percentage, of the medical providers within our HCO and MPN networks could be at risk of contracting COVID-19, or that the facilities they use to render treatment could be subject to temporary closures. Such contingencies would make it more difficult for the injured employees of our employer/clients to receive treatment, which could also impact our business, financial condition and results of operations.

Beginning in February 2020, we started taking steps to protect employees and business operations from the spread of COVID-19, following local, state, and national guidelines from recognized health sources. By mid-March 2020, we activated the remote work functionality of our business continuity plan for all essential employees and nearly all other employees. Currently, all critical business functions are being successfully rendered remotely; however, a number of these measures are being deployed for the first time, and there is no guarantee they will be completely effective throughout the duration of COVID-19 restrictions on daily life. We are continuing to assess the situation and will continue to take the actions we believe are appropriate to respond to the threat and the subsequent business impacts, including incurring additional expenses to maintain remote work viability, information technology and security expenses to adapt to changing availability of resources, provide federally mandated employee entitlements, and potential new avenues of liability. It is possible, that the scope of the threat will be beyond our ability to fully mitigate, which could result in a material adverse effect on our business, financial condition, and results of operations.

***Competition to hire or retain qualified employees and key personnel and increasing costs of employee benefits may result in increased labor cost and decreased profitability.***

The relative strength of the U.S. economy has made it more difficult for us to hire and retain qualified and capable individuals to fill roles in both for our day-to-day operational staff and for more senior or specialized employees. Moreover, the cost associated with employee benefits can experience significant increases based on economic factors beyond our control. We compete in the employee market with many larger, more established companies, many of which have greater resources and offer more robust benefits. Our failure to hire and retain employees within our current pay structure and increases in employee benefits costs could result in increased operating expenses and decreased profitability.

#### **ITEM 1B. UNRESOLVED STAFF COMMENTS**

Smaller reporting companies are not required to provide the information required by this Item.

#### **ITEM 2. PROPERTIES**

We lease approximately 9,500 square feet of office space located at 1201 Dove Street, Suites 300 Newport Beach California, 92660. This office space lease expires in April 2022. This space serves as our principal executive offices, as well as, the principal offices of our subsidiaries. We believe this space will be sufficient for our needs for the foreseeable future.

**ITEM 3. LEGAL PROCEEDINGS**

From time to time, we may become involved in various lawsuits and legal proceedings which arise in the ordinary course of business. Litigation is subject to inherent uncertainties, and an adverse result in such matters may arise from time to time that may harm our business. To the knowledge of management, there is no material litigation or governmental agency proceeding pending or threatened against us or any of our subsidiaries. Further, we are not aware of any material proceeding to which any director, member of senior management or owner of record or beneficially of more than five percent of any class of our voting securities or any of our subsidiaries, or any associate of any of them is a party adverse to or has a material interest adverse to us or any of our subsidiaries.

**ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.



**PART II****ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES****Market Information**

Our common stock is currently traded on the OTCQB under the ticker symbol "PFHO". The following table presents the quarterly high and low bid quotations for the periods indicated. The following table sets forth the published high and low bid quotations furnished to us by OTC Markets Group, Inc. These quotations reflect inter-dealer prices without retail mark-up, mark-down or commission and may not necessarily represent actual transactions.

	<u>High</u>	<u>Low</u>
<u>Fiscal year ended December 31, 2019*</u>		
Fourth Quarter	\$ 1.26	\$ 1.03
Third Quarter	\$ 1.28	\$ 1.10
Second Quarter	\$ 1.36	\$ 1.20
First Quarter	\$ 1.15	\$ 0.88
<u>Fiscal year ended December 31, 2018*</u>		
Fourth Quarter	\$ 1.36	\$ 1.01
Third Quarter	\$ 1.43	\$ 0.64
Second Quarter	\$ 0.96	\$ 0.75
First Quarter	\$ 0.81	\$ 0.66

\* All amounts adjusted to reflect the four-shares-for-one-share forward split of the Company's stock that took effect on April 5, 2018 and the four-shares-for-one-share forward split of the Company's stock that took effect on January 6, 2020.

**Holders**

As of March 25, 2020, we had 289 shareholders of record holding 12,800,000 shares of our common stock. The number of record shareholders was determined from the records of our stock transfer agent and does not include beneficial owners of common stock whose shares are held in "nominee" or "street" name by banks, brokers and other financial institutions.

**Dividends**

Our ability to pay dividends is subject to limitations imposed by Utah law. Under Utah law, dividends may not be made if, after giving effect to the dividend; a) the company would be unable to pay its debts as they become due in the usual course of business; or b) the company's total assets would be less than the sum of its total liabilities plus the amount that would be needed to satisfy the rights of any holders of preferential rights whose rights are superior to those receiving the dividend.

We did not declare dividends on our outstanding common stock during the years ended December 31, 2019 and 2018 and we do not currently anticipate declaring cash dividends in the foreseeable future.

**Securities Authorized for Issuance Under Equity Compensation Plans**

Information regarding securities authorized for issuance under our equity compensation plans is set forth in Item 12 – *Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters* of this Annual Report on Form 10-K under the heading "Equity Compensation Plans".

**Performance Graph**

Smaller reporting companies are not required to provide the information required by this Item.

## **Recent Sales of Unregistered Securities**

Except as previously reported in our Quarterly Reports on Form 10-Q and our Current Reports on Form 8-K, we have not sold any equity securities during the year ended December 31, 2019, which were not registered under the Securities Act of 1933, as amended.

## **Purchases of Equity Securities by the Issuer and Affiliated Purchasers**

Neither we, nor any affiliated purchaser, purchased any of our equity securities during the year ended December 31, 2019.

## **ITEM 6. SELECTED FINANCIAL DATA**

Smaller reporting companies are not required to provide the information required by this Item.

## **ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The following is a discussion of our consolidated financial condition and results of operations for the years ended December 31, 2019 and 2018, and other factors that are expected to affect our prospective financial condition. The following discussion and analysis should be read together with our Consolidated Financial Statements and related notes beginning on page 27 of this Annual Report on Form 10-K.

Some of the statements set forth in this section are forward-looking statements relating to our future results of operations, financial condition, liquidity and capital resources. Our actual results, financial condition, liquidity and capital resources may vary from the results anticipated by these statements. We disclaim any obligation to update or revise any forward-looking statements based on the occurrence of future events, the receipt of new information, or otherwise. Actual future results may differ materially from those expressed in the forward-looking statement made by the Company or its management as a rest of several risks, uncertainties and assumptions. Please see "*Cautionary Statement Regarding Forward-Looking Statements*" on page 4 of this Annual Report on Form 10-K.

### **Overview**

We are workers' compensation cost containment specialists. Our business objective is to deliver value to our clients that reduces their workers' compensation related medical claims expense in a manner that will assure that injured employees receive high quality healthcare that allows them to recover from injury and return to gainful employment without undue delay. Our clients include self-administered employers, insurers, third party administrators, municipalities and others. Although we have processed medical bill reviews in 23 states, our principal clients are in the State of California where the high cost of workers' compensation insurance is a critical problem.

Our core service focuses on reducing medical treatment costs by enabling employer/ clients to share the control over the medical treatment process. This control is obtained by participation in one of our medical treatment networks. We realize revenues from enrollment of the employees of our client/employers into our various networks. Beyond the core services we also provide claims-related services including utilization review, medical case management, medical bill review, lien representation, carve-outs, legal support and Medicare set-aside services that bring efficiencies to claims processing and management that further reduces the overall burden of worker compensation claims resolution.

Our business generally has a long sales cycle, typically more than one year. Once we have established a customer relationship and enrolled employees of our client/employers, our revenue adjusts with the growth or retraction of client/employers' managed headcount. Throughout the year, new employees and client/employers are added while others terminate from the program for a variety of reasons.

In the current economic environment, we anticipate businesses will continue to seek ways to control their workers' compensation program costs. Even though our HCO and MPN programs have been shown to create a favorable return on investment for our client/employers, (as our services are a significant component of the employers' loss prevention programs), from time-to-time we experience customer volatility in the form of existing client/employers terminating or seeking to renegotiate the scope and terms of existing services, switching to a third party administrator or insurance company that provides the same services as ours, or seeking to reduce costs by managing their workers' compensation care services in-house.

## Summary of Fiscal 2019

During the year ended December 31, 2019, total revenues increased 8%. Revenue from HCO, medical bill review and medical case management increased 1%, 3% and 23%, respectively. Offsetting those increases, revenue from MPN and Other fees decreased 2% and 23%, respectively. Revenue from utilization review was flat. The increases in revenue during fiscal 2019 came primarily from two significant customers. These increases were partially offset by decreased revenue from several customers.

During fiscal 2019, operating expenses increased by 15%, primarily as a result of increases in depreciation, bad debt provision, salaries and wages, professional fees, insurance, data maintenance and general and administration expenses. These increases were partially offset primarily by lower consulting fees and outsource service fees. As a result, our income from operations was \$1,680,135 during fiscal 2019, compared to \$1,889,407 in fiscal 2018.

Our provision for income tax expense decreased 11% during fiscal 2019, from \$529,630 in 2018 to \$482,075 in 2019 due to a decrease in income from operations.

Our net income decreased 12% to \$1,198,060. Basic and fully diluted earnings per share during fiscal 2019 was \$0.09 and \$0.09, respectively compared to \$0.11 and \$0.11, respectively during fiscal 2018.

## Comparison of the Fiscal Years Ended December 31, 2019 and 2018

### Results of Operations

The following represents selected components of our consolidated results of operations, for the years ended December 31, 2019 and 2018, respectively, together with changes from year-to-year:

	Year Ended December 31			
	2019	2018	Amount of Change	% Change
Revenues				
HCO	\$ 1,724,276	\$ 1,702,777	\$ 21,499	1%
MPN	510,622	518,660	(8,038)	(2%)
Utilization review	1,215,089	1,218,376	(3,287)	-%
Medical bill review	535,942	520,199	15,743	3%
Medical case management	3,078,488	2,492,964	585,524	23%
Other	266,523	343,937	(77,414)	(23%)
Total revenues	7,330,940	6,796,913	534,027	8%
Expense				
Depreciation	76,168	67,084	9,084	14%
Bad debt provision	23,846	(31,707)	55,553	(175%)
Consulting fees	268,403	353,622	(85,219)	(24%)
Salaries and wages	3,109,816	2,462,253	647,563	26%
Professional fees	353,394	347,704	5,690	2%
Insurance	328,663	283,844	44,819	16%
Outsource service fees	481,695	512,760	(31,065)	(6%)
Data maintenance	192,059	176,771	15,288	9%
General and administrative	816,761	735,175	81,586	11%
Total expenses	5,650,805	4,907,506	743,299	15%
Income from operations	1,680,135	1,889,407	(209,272)	(11%)
Income before taxes	1,680,135	1,889,407	(209,272)	(11%)
Income tax provision	482,075	529,630	(47,555)	(9%)
Net income	\$ 1,198,060	\$ 1,359,777	\$ (161,717)	(12%)

## Revenue

### HCO

During the years ended December 31, 2019 and 2018, HCO revenue was \$1,724,276 and \$1,702,777, respectively, a 1% increase. This increase in HCO revenue was primarily attributable to the addition of two new customers in the third quarter, an increase in the enrollment of additional employees into the HCO program, new claims, and URL fees from existing customers, partially offset by the loss of three customers in 2019 due to changes in the customers' management teams that oversaw the HCO program and those teams' decision to implement other workers' compensation programs. The Medex Health Care Organization (HCO) program utilizes an exclusive, specialized network of medical providers experienced in workers' compensation. The HCO program gives the employer the right to direct medical care to a network physician for a work-related injury for up to 180-days of medical treatment. The ability to direct care during the early stages of a claim ensures the injured worker gets quality care in a timely manner. The HCO program is required to send out enrollment forms annually to customers' employees and their new employees. The fluctuations in HCO revenue are attributable to the number of employees a customer has and how many new employees they hire throughout the year.

### MPN

MPN revenue for 2019 was \$510,622 compared to \$518,660 for 2018, a decrease of 2%, primarily from decreases in claims administration fees in the first and third quarter as a result of fewer customer reported new claims, partially offset by an increase in program administration fees from existing customers, MPN program fees and the addition of a new customer. The Medex Medical Provider Network (MPN) program is comprised of an exclusive, specialized network of medical providers experienced in workers' compensation. This network was created to provide quality medical treatment for injured workers and medical reports in a timely manner.

### Utilization review

During the year ended December 31, 2019, utilization review revenue was flat, with a slight decrease in revenue from \$1,218,376 in 2018 to \$1,215,089 in 2019. Revenue decreased due to a current customer taking a portion of utilization review in house, which resulted in fewer referrals and the loss of three customers. This decrease was partially offset by increases in utilization review referrals from existing customers and several existing customers adding utilization review services. Utilization review can provide a safeguard against unnecessary and inappropriate medical treatment from the perspective of medical necessity, quality of care, appropriateness of decision-making, etc. Its purpose is to serve as a safeguard against liability for medical costs that are not medically appropriate or approved by the relevant medical and legal authorities and the payor. Reviews are conducted at the appropriate qualification level for the request and the proposed determination, and within the timelines set by the relevant regulations.

### Medical bill review

During the twelve months ended December 31, 2019, revenue from medical bill review increased by 3% when compared the same period a year earlier. This increase in revenue was due to an increase in medical bills received for review and an existing customer adding medical bill services, partially offset by decreases in bills received for other existing customers. Medical bill review involves analyzing medical provider services and equipment billing to ascertain proper reimbursement. Such services include, but are not limited to, 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. These services can result in significant network savings.

### Medical case management

During the twelve-month periods ended December 31, 2019 and 2018, revenue from medical case management revenue was \$3,078,488 and \$2,492,964, respectively. The increase in medical case management revenue of \$585,524 was primarily the result of an increase in the number of new claims and time spent on open claims managed with existing customers, partially offset by decreases due to changes in the medical case management billing hours structure for all customers in the fourth quarter. Medical case management keeps medical treatment claims progressing to a resolution and assures treatment plans are aligned from a medical perspective. Medical oversight is a collaborative process that assesses plans, implements, coordinates, monitors and evaluates the options and services required to meet an injured worker's health needs. A medical case manager acts as a liaison between the injured worker, claims adjuster, medical providers and attorneys to achieve optimal results for injured workers and employer/clients. 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 a faster claim closure for our customers.

Other

Other fees consist of revenue derived from network access and claims fees, lien representation, legal support services, Medicare set-aside, and Workers' Compensation carve-outs services. Other fee revenue for the year ended December 31, 2019 decreased 23% when compared to the same period a year earlier. The decrease of \$77,414 was the result of fewer claims accessing our network from one customer and fewer Medicare set-aside referrals due to a customer catching up on processing a backlog of Medicare set-aside claims. We recorded no lien representation and legal support services during 2019.

**Expenses**

Total expenses for the years ended December 31, 2019 and 2018, were \$5,650,805 and \$4,907,506, respectively. The increase of \$743,299 was the result of increases in depreciation, bad debt provision, salaries and wages, professional fees, insurance, data maintenance and general and administrative expenses. These increases were partially offset by decreases in consulting fees and outsource service fees.

Depreciation expenses

During the twelve-month period ended December 31, 2019, we recorded depreciation expense of \$76,168 compared to \$67,084 during the comparable 2018 period. The increase in depreciation and amortization was primarily attributable to the purchase of new computers, equipment, and software purchased due to Microsoft's end of life for Windows 7 at the end of 2019.

Bad debt

During the year ended December 31, 2019, our allowance for bad debts increased \$55,563 compared to the year ended December 31, 2018. This was primarily the result of several customers having outstanding balances over 90 days during the 2019 period. By comparison, during the 2018 period, we reduced the required allowance of bad debt which resulted in recording a credit to the provision for bad debt of \$31,707 as a result of a customer paying overdue invoices during the 2018 period that we had considered.

Consulting fees

During the year ended December 31, 2019, consulting fees decreased \$85,295, from \$353,622 in 2018 to \$268,403 in 2019. This 24% decrease was mainly the result of terminating a consultant who was assisting us with capital funding for acquisitions partially offset by hiring a consultant to assist with our insurance acquisition search.

Salaries and wages

During the twelve months ended December 31, 2019, salaries and wages increased by 26%. This increase was primarily the result of hiring a new director in Medex Healthcare in the second quarter of 2018 and increases in salaries and wages for existing staff to retain and stay competitive in the labor market.

Professional fees

For the year ended December 31, 2019, we incurred professional fees of \$353,394 compared to \$347,704 during the same period in 2018. The 2% increase was primarily the result of an increase in accounting and other fees partially offset by a decrease in medical case management professional and legal fees.

Insurance

During 2019, we incurred insurance expenses of \$328,663, an increase of \$44,819 when compared to 2018 primarily due to an increase in net group health insurance expense. We expect insurance fees to increase in August 2020, when our current group health insurance plan is up for renewal.

Outsource service fees

Outsource service fees consist of costs incurred by our subsidiaries in outsourcing utilization review, medical bill review, medical case management services, and Medicare set-aside and typically tends to increase and decrease in correspondence with increases and decreases in demand for those services. We incurred \$481,695 and \$512,760 in outsource service fees during the twelve-month periods ended December 2019 and 2018, respectively. The decrease of \$31,065 was primarily the result of increasing the number of internal field case management assignments and fewer referrals sent out for Medicare set-aside. We anticipate our outsource service fees will continue to move in correspondence with the level of utilization review, medical bill review, certain medical case management services and Medicare set-aside services we provide in the future.

Data maintenance

During the year ended December 31, 2019 and 2018, we incurred data maintenance fees of \$192,059 and \$176,771, respectively. The increase of \$15,288 was primarily the result of an increase in the number of employee notifications associated with HCO customers during the twelve-month period ended December 31, 2019.

General and administrative

General and administrative expenses increased approximately 11% to \$816,761 during the twelve months ended December 31, 2019, when compared to 2018. The increase in general and administrative expense was primarily attributable to increases in charitable contributions, auto expense, bank charges, dues and subscriptions, IT enhancement, licenses and permits, office supplies, parking, postage and delivery, rent expense for equipment, rent expense, vacation and miscellaneous expenses partially offset by decreases in advertising, education, employment agency fees, equipment/repairs, printing and reproduction, tax penalty, reference material, shareholders' expenses, travel and entertainment expenses.

**Income from Operations**

The 15% increase in total expenses during fiscal 2019 more than offset the 8% increase in total revenues, resulting in an 11% decrease in income from operations during the fiscal year ended December 31, 2019, when compared to 2018.

**Income Tax Provision**

During the year ended December 31, 2019 we realized income from operations of \$1,680,135 compared to \$1,889,407, during the year ended December 31, 2018. This 11% decrease in income from operations resulted in a corresponding 9% decrease in our provision for income taxes, as we reduced our income tax provision from \$529,630 during the year ended December 31, 2018 to \$482,075 during the year ended December 31, 2019, of \$209,272 or 11% in our income tax provision.

**Net Income**

During the year ended December 31, 2019, total revenues of \$7,330,940 increased by \$534,027 when compared to the same period 2018. This increase in total revenues was offset by increases in total expenses of \$743,299, resulting in income from operations of \$1,680,135, compared to income from operations of \$1,889,407 during 2018. These changes coupled with changes in our income tax provision resulted in net income of \$1,198,060 in 2019, compared to net income of \$1,359,777 during 2018.

Liquidity and Capital Resources

We realized net loss and an increase in cash during fiscal 2019. As of December 31, 2019, we had cash on hand of \$8,104,164 compared to \$7,072,507 at December 31, 2018. The \$1,031,657 increase in cash on hand was primarily the result of net cash provided by our operating activities partially offset by cash used in investing activities.

Net cash provided by our operating activities was the result of realizing net income coupled with increases in bad debt provision, accrued expenses, deferred rent expense, unearned revenue and decreases in receivable other, prepaid expense and deferred tax asset partially offset by increases in accounts receivable and prepaid income tax and decreases in accounts payable and credit card payable.

We used \$59,168 in investing activities for purchases of computers, furniture and equipment. During 2019 no shareholders who had not previously submitted the necessary paperwork to receive the one-time cash dividend we declared in September 2015 submitted the required paperwork to us, so we paid no made no unclaimed dividend payments during 2019.

## [Table of Contents](#)

In 2019, we replaced all of our desktops with laptops due to the age of the computers and as part of our continuity plan. We anticipate investing activities will continue to in an effort to replace outdated equipment. Barring a significant downturn in the economy or the loss of major customers, we believe that cash on hand and anticipated revenues from operations will be enough to cover our operating expenses over the next twelve months.

We continue to investigate potential opportunities to expand our business either through the creation of new business lines or the acquisition of existing businesses. We are also looking to expand our business into the insurance industry and through acquisitions of other companies providing similar or complimentary services to the services we currently offer, but have not identified any suitable candidates or opportunities at the current time. We anticipate an expansion or acquisition of this sort may 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. We anticipate an acquisition using our capital stock as consideration would result in dilution to our existing shareholders.

### **Cash Flow**

During the year ended December 31, 2019, cash was primarily used to fund operations. We had net increases in cash of \$1,031,657 and \$1,257,436 during the years ended December 31, 2019 and 2018, respectively. See below for additional, discussion and analysis of cash flow.

	<b>December 31, 2019</b>	<b>December 31, 2018</b>
Net cash provided by operating activities	\$ 1,090,825	\$ 1,319,093
Net cash (used in) investing activities	(59,168)	(41,734)
Net cash (used in) financing activities	-	(19,923)
Net increase in cash	<u>\$ 1,031,657</u>	<u>\$ 1,257,436</u>

Net cash provided by operating activities was \$1,090,825 and \$1,319,093 in 2019 and 2018, respectively. The decrease of \$228,268 in cash flow from operating activities is the result of realizing lower net income coupled with increases in bad debt provision, prepaid income tax, accrued expenses, deferred rent expense, and unearned revenue partially offset by decreases in receivable other, prepaid expenses, accounts payable, credit card payable, deferred tax asset and income tax payable.

Net cash used in investing activities were \$59,168 and \$41,734 in 2019 and 2018, respectively. Net cash used in investing activities was higher by \$17,434 in 2019 because of an increase in purchases of computers, furniture and equipment.

In 2019 we used \$0 in financing activities, compared to \$19,923 in 2018. As noted above, cash flows used in financing activities during 2018 were used to pay unclaimed cash dividends declared in September 2015.

### **Impact of COVID-19 on our Business**

In late 2019 COVID-19 was identified. By February 2020, the virus has spread to many countries around the world, including the United States. By late February, authorities in the United States began advising American businesses to prepare for the effects of the outbreak. In early March 2020 we issued an advisory to our clients including medical information, prevention, and our role in assisting employers with COVID-19 preparation. At the same time, we issued an advisory and policies to employees, vendors, and office visitors that reflects the relevant recommendations of the Centers for Disease Control and Prevention, the World Health Organization, and other authorities for preventing and containing the spread of the disease in the workplace. This included medical and symptomatic information about the virus, and stated the in-office measures we implemented to prevent the spread of the disease including hand sanitizing stations, tissues, and cleaning supplies placed in common areas throughout the office; frequent reminders to wash hands properly at one of the four sinks available in our headquarters location; remote work options for employees who were sick with a respiratory illness, showed signs of a fever, had reason to believe that they had been exposed to the virus, or were affected by social impacts like school closures; and information on confidential risk assessments based on the CDC guidelines. Our Disaster Recovery and Business Continuity Plan was reviewed and, as needed, updated to focus on specific guidance relating to COVID-19, to address how critical business operations can be rendered by employees working remotely and how to most effectively deploy these measures if and as necessary.

In mid-March 2020, the Centers for Disease Control issued an advisory against public gatherings of 50 people or more. In light of these advisories, we have implemented and executed an Interim Remote Work Plan in Response to Coronavirus Concerns, whose purpose is to foster the social distancing required to prevent the spread of the virus for both employees working remotely and those who continue to work at our headquarters. On March 20, 2020, the governor of California issued a stay-at-home order except for essential services, such as grocery stores, gas stations and banks to remain open. This order will remain in effect until further notice. At the time of this filing, approximately 100% of our employees are working remotely and we are performing approximately 95% of our typical business functions, with the primary exceptions being certain manual, non-critical functions.

While we have taken steps to address how critical business functions can be rendered remotely, the most effective means to deploy these measures and the best ways to ensure data security, as many of these measures are being deployed for the first time, there is no guarantee they will be completely effective or that we will not encounter some of the common risks associated with employees working remotely, including accessing company data and systems remotely. As discussed in more detail above in *Item 1A Risk Factors*, our business could be materially and adversely affected by the potential interruptions to our business operations arising from the COVID-19 outbreak.

#### **Contractual Obligations and Contingencies**

Smaller reporting companies are not required to provide this information.

#### **Off-Balance Sheet Financing Arrangements**

As of December 31, 2019, 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 often try to take our clients 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 are material to our revenues or net income. Some of our clients 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.

#### **Critical Accounting Policies and Estimates**

See Note 2 to our audited consolidated financial statements contained elsewhere in this report.

#### **ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK**

Smaller reporting companies are not required to provide the information required by this Item.



**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

---

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Stockholders  
Pacific Health Care Organization, Inc.  
Newport Beach, CA

**Opinion on the Financial Statements**

We have audited the accompanying balance sheets of Pacific Health Care Organization, Inc. (the Company) as of December 31, 2019 and 2018, and the related statements of operations, stockholders' equity, and cash flows for the years then ended, and the related notes (collectively referred to as the financial statements). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

**Basis for Opinion**

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audit, we are required to obtain an understanding of internal control over financial reporting, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

*/s/ Pinnacle Accountancy Group of Utah*

We have served as the Company's auditor since 2017.

Pinnacle Accountancy Group of Utah  
(a dba of Heaton & Company, PLLC)  
Farmington, Utah  
March 25, 2020

**Pacific Health Care Organization, Inc.**  
**Consolidated Balance Sheet**

**ASSETS**

	<b>December 31, 2019</b>	<b>December 31, 2018</b>
<b>Current Assets</b>		
Cash	\$ 8,104,164	\$ 7,072,507
Accounts receivable, net of allowance of \$30,525 and \$28,442	1,114,725	940,426
Deferred tax assets	22,819	63,465
Prepaid income tax	158,641	73,959
Receivable – Other	14,900	23,715
Prepaid expenses	128,343	163,255
Total current assets	9,543,592	8,337,327
<b>Property and Equipment, net</b>		
Computer equipment	464,388	405,219
Furniture and fixtures	215,960	215,960
Office equipment	9,556	9,556
Total property and equipment	689,904	630,735
Less: accumulated depreciation and amortization	(565,277)	(489,108)
Net property and equipment	124,627	141,627
Operating lease right-of-use assets, net	558,945	-
Other assets	26,788	26,788
Total Assets	\$ 10,253,952	\$ 8,505,742

**LIABILITIES AND STOCKHOLDERS' EQUITY**

<b>Current Liabilities</b>		
Accounts payable	\$ 52,220	\$ 63,724
Accrued expenses	249,904	248,455
Credit card payable	55	3,146
Income tax payable	-	100
Deferred rent expense	29,947	26,114
Dividend payable	37,000	37,000
Operating lease liabilities, current portion	266,480	-
Unearned revenue	46,066	45,448
Total current liabilities	681,672	423,987
<b>Long Term Liabilities</b>		
Operating lease liabilities, long-term portion	292,465	-
Total Liabilities	974,137	423,987
<b>Commitments and Contingencies</b>	-	-
<b>Stockholders' Equity</b>		
Preferred stock; 5,000,000 shares authorized at \$0.001 par value of which 40,000 shares designated as Series A preferred and 16,000 shares issued and outstanding at December 31, 2019 and 2018	16	16
Common stock, \$0.001 par value, 200,000,000 shares authorized, 12,800,000 shares issued and outstanding at December 31, 2019 and 2018	12,800	12,800
Additional paid-in capital	416,057	416,057
Retained earnings	8,850,942	7,652,882
Total stockholders' equity	9,279,815	8,081,755
Total Liabilities and Stockholders' Equity	\$ 10,253,952	\$ 8,505,742

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

**Pacific Health Care Organization, Inc.**  
**Consolidated Statement of Operations**

	<b>Years Ended December 31,</b>	
	<b>2019</b>	<b>2018</b>
Revenues		
HCO	\$ 1,724,276	\$ 1,702,777
MPN	510,622	518,660
Utilization review	1,215,089	1,218,376
Medical bill review	535,942	520,199
Medical case management	3,078,488	2,492,964
Other	266,523	343,937
Total revenues	<u>7,330,940</u>	<u>6,796,913</u>
Expenses		
Depreciation	76,168	67,084
Bad debt provision	23,846	(31,707)
Consulting fees	268,403	353,622
Salaries and wages	3,109,816	2,462,253
Professional fees	353,394	347,704
Insurance	328,663	283,844
Outsource service fees	481,695	512,760
Data maintenance	192,059	176,771
General and administrative	816,761	735,175
Total expenses	<u>5,650,805</u>	<u>4,907,506</u>
Income from operations	1,680,135	1,889,407
Income before taxes	1,680,135	1,889,407
Income tax provision	482,075	529,630
Net income	<u>\$ 1,198,060</u>	<u>\$ 1,359,777</u>
Basic earnings per share:		
Earnings per share amount	\$ 0.09	\$ 0.11
Basic common shares outstanding	12,800,000	12,800,000
Fully diluted earnings per share:		
Earnings per share amount	\$ 0.09	\$ 0.11
Fully diluted common shares outstanding	12,816,000	12,816,000

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

**Pacific Health Care Organization, Inc.**  
**Consolidated Statements of Stockholders' Equity**

	<u>Preferred Stock</u>		<u>Common Stock</u>		<u>Paid in Capital</u>	<u>Retained Earnings</u>	<u>Total Shareholders' Equity</u>
	<u>Shares</u>	<u>Amount</u>	<u>Shares</u>	<u>Amount</u>			
Balance December 31, 2017	16,000	\$ 16	12,800,000	\$ 12,800	\$ 416,057	\$ 6,293,105	\$ 6,721,978
Net income for the year ended December 31, 2018	-	-	-	-	-	1,359,777	1,359,777
Balance December 31, 2018	16,000	\$ 16	12,800,000	\$ 12,800	\$ 416,057	\$ 7,652,882	\$ 8,081,755
Net income for the year ended December 31, 2019	-	-	-	-	-	1,198,060	1,198,060
Balance December 31, 2019	<u>16,000</u>	<u>\$ 16</u>	<u>12,800,000</u>	<u>\$ 12,800</u>	<u>\$ 416,057</u>	<u>\$ 8,850,942</u>	<u>\$ 9,279,815</u>

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

**Pacific Health Care Organization, Inc.**  
**Consolidated Statements of Cash Flows**

	<b>Years ended December 31,</b>	
	<b>2019</b>	<b>2018</b>
<b>Cash Flows from Operating Activities</b>		
Net income	\$ 1,198,060	\$ 1,359,777
Adjustments to reconcile net income to net cash:		
Depreciation	76,168	67,084
Bad debt provision	23,846	(31,707)
Changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable	(198,145)	132,523
Decrease (increase) in deferred tax asset	40,646	(19,795)
(Increase) in prepaid income tax	(84,682)	(73,959)
Decrease (increase) in receivable – other	8,815	(23,715)
Decrease in prepaid expenses	34,912	3,527
(Decrease) in accounts payable	(11,504)	(7,414)
Increase (decrease) in accrued expenses	1,449	(6,750)
(Decrease) increase in credit card payable	(3,091)	3,146
(Decrease) in income tax payable	(100)	(81,615)
Increase (decrease) in deferred rent expense	3,833	(9,100)
Increase in unearned revenue	618	7,091
Net cash provided by operating activities	1,090,825	1,319,093
<b>Cash Flows from Investing Activities</b>		
Purchase of furniture and equipment	(59,168)	(41,734)
Net cash used in investing activities	(59,168)	(41,734)
<b>Cash Flows from Financing Activities</b>		
Issuance of cash dividends	-	(19,923)
Net cash used in financing activities	-	(19,923)
Increase in cash	1,031,657	1,257,436
Cash at beginning of period	7,072,507	5,815,071
Cash at end of period	\$ 8,104,164	\$ 7,072,507
<b>Supplemental Cash Flow Information</b>		
Cash paid for:		
Interest	\$ -	\$ -
Income taxes paid	\$ 526,211	\$ 754,999
Non-cash investing and financing activities	-	-
Initial recognition of operating lease right-of-use assets and operating lease liabilities	\$ 719,861	\$ -

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

**Pacific Health Care Organization, Inc.**  
**Notes to Consolidated Financial Statements**  
**Years Ended December 31, 2019 and 2018**

**NOTE 1 – CORPORATE HISTORY**

Pacific Health Care Organization, Inc. (the “Company”) is a specialty workers’ compensation managed care company providing a range of services principally to California employers and claims administrators. The Company was incorporated under the laws of the state of Utah in April 1970, under the name Clear Air, Inc. The Company changed its name to Pacific Health Care Organization, Inc., in January 2001. In February 2001, the Company acquired Medex Healthcare, Inc. (“Medex”), a California corporation organized in March 1994, in a share for share exchange. Medex is a wholly-owned subsidiary of the Company. Medex is in the business of managing and administering both Health Care Organizations (“HCOs”) and Managed Provider Networks (“MPNs”) in the state of California. In August 2001, we formed Industrial Resolutions Coalition, Inc. (“IRC”), a California corporation, as a wholly-owned subsidiary of PHCO. IRC oversees and manages the Company’s Workers’ Compensation carve-outs services. In June 2010, the Company acquired Medex Legal Support, Inc. (“MLS”), a Nevada corporation incorporated in September 2009. MLS offers lien representation services and Medicare Set Aside (“MSA”) services. In February 2012, we incorporated Medex Medical Management, Inc., (“MMM”) in the state of Nevada, as a wholly owned subsidiary of the Company. MMM is responsible for overseeing and managing medical case management services. In March 2011, we incorporated Medex Managed Care, Inc. (“MMC”) in the state of Nevada, as a wholly owned subsidiary of the Company. MMC oversees and manages the Company’s utilization review and managed bill review services. In October 2018, the Company incorporated Pacific Medical Holding Company, Inc. (“PMHC”) to act as a holding company for future potential acquisitions.

**NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES**

**A. Basis of Accounting**

The Company used the accrual method of accounting in accordance with accounting principles generally accepted in the United States for the periods ended December 31, 2019 and 2018.

**B. Revenue Recognition**

Revenue Recognition — In May 2014, the FASB issued ASU 2014-09, “Revenue from Contracts with Customers (Topic 606).” Either a retrospective or cumulative effect transition method, referred to as the modified retrospective method, is permitted. The Company adopted Topic 606 on January 1, 2018, using the modified retrospective method. The adoption of Topic 606 had no material impact on the Company’s audited financial statements.

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.

The ASU 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 the sale of services offered through its HCO and MPN provider networks, medical bill review, utilization review, medical case management services, lien defense, carve-outs, Medicare set-aside. These services are billed individually as separate components to our customers. These fees include monthly and/or annual HCO and/or MPN administration fees, claim and network access fees, medical bill review fees, legal support fees, Medicare set-aside fees, lien service fees, workers’ compensation carve-outs, utilization review fees, medical case management flat rate fees or hourly fees depending on the agreement with the client.

**Pacific Health Care Organization, Inc.**  
**Notes to Consolidated Financial Statements**  
**Years Ended December 31, 2019 and 2018**

The Company enters into arrangements for bundled managed care which includes various units of accounting such as network solutions and patient management, including 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 products the pricing of the products sold is generally the same as if the products 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 products, 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.

**C. Cash Equivalents**

The Company considers all short term, highly liquid investments that are readily convertible, within three months, to known amounts as cash equivalents. As of the date of these consolidated financial statements, the Company has no cash equivalents.

**D. Concentrations of Credit Risk**

Financial instruments that potentially subject the Company to concentrations of credit risks consist of cash and cash equivalents. The Company places its cash and cash equivalents at well-known, quality financial institutions. At times, such cash and investments may be in excess of the FDIC insurance limit.

**E. 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 the consolidated financial statements. The fully diluted earnings per share includes 16,000 shares of Series A preferred stock, as disclosed in Section L of Note 2.

	<b>For the Years Ended December 31,</b>	
	<b>2019</b>	<b>2018</b>
Basic Earnings per share:		
Income (numerator)	\$ 1,198,060	\$ 1,359,777
Shares (denominator)	12,800,000	12,800,000
Per share amount	<u>\$ 0.09</u>	<u>\$ 0.11</u>
Fully Diluted Earnings per share:		
Income (numerator)	\$ 1,198,060	\$ 1,359,777
Shares (denominator)	12,816,000	12,816,000
Per share amount	<u>\$ 0.09</u>	<u>\$ 0.11</u>

**F. Depreciation**

The cost of property and equipment is depreciated over the estimated useful lives of the related assets. The cost of leasehold improvements is depreciated over the lesser of the length of the lease of the related assets or the estimated lives of the assets. Depreciation is computed on the straight-line method which is five years for computer equipment, office equipment, and furniture and fixtures.

**G. Use of Estimates**

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates. Significant estimates include the values assigned to the allowance for doubtful accounts and accruals for income taxes.

**Pacific Health Care Organization, Inc.**  
**Notes to Consolidated Financial Statements**  
**Years Ended December 31, 2019 and 2018**

**H. Principles of Consolidation**

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

**I. Fair Value of Financial Instruments**

The Company applies ASC 820, "Fair Value Measurements." This guidance defines fair value, establishes a three-level valuation hierarchy for disclosures of fair value measurement and enhances disclosure requirements for fair value measures. The three levels are defined as follows:

- Level 1 inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2 inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.
- Level 3 inputs to valuation methodology are unobservable and significant to the fair measurement.

The carrying amounts reported in the balance sheets for cash and cash equivalents, receivables and current liabilities each qualify as financial instruments and are a reasonable estimate of fair value because of the short period of time between the origination of such instruments and their expected realization and their current market rate of interest.

**J. General and Administrative Expenses**

General and administrative expenses include fees for advertising, charity, rent expense for office, shareholders' expense, auto expenses, bank charges, dues and subscriptions, education, employment agency fees, equipment/repairs, IT enhancement and internet expenses, licenses and permits, office supplies, parking, postage and delivery, printing and reproduction, tax penalty, reference material, rent expense for equipment, telephone, compensated absences, travel expenses and entertainment costs.

**K. Income Taxes**

The Company utilizes the asset and liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are provided based on the difference between the financial statements and tax basis of assets and liabilities measured by the currently enacted tax rates in effect for the years in which these differences are expected to reverse. Deferred tax expense or benefit is the result of changes in deferred tax assets and liabilities.

**L. Capital Structure**

On January 6, 2020, the Company effected a four-shares-for-one-share (4:1) forward stock split ("Forward Split") of its common stock and its Series A preferred stock. Unless otherwise noted, impacted amounts, share and per share information included in the financial statements and notes thereto have been retroactively adjusted for the Forward Split as if such Forward Split occurred on the first day of the first period presented.

On April 5, 2018, the Company effected a four-shares-for-one-share (4:1) forward stock split ("Forward Split") of its common stock. Unless otherwise noted, impacted amounts, share and per share information included in the financial statements and notes thereto have been retroactively adjusted for the Forward Split as if such Forward Split occurred on the first day of the first period presented.



**Pacific Health Care Organization, Inc.**  
**Notes to Consolidated Financial Statements**  
**Years Ended December 31, 2019 and 2018**

The Company has two classes of stock. The Articles of Incorporation of the Company, as amended, authorize 5,000,000 shares of \$0.001 par value preferred stock, which may be issued in one or more series, with designation, rights and privileges of such preferred stock to be set by the board of directors of the Company from time to time. On November 21, 2016, the board of directors of the Company approved a Certificate of Designation of Rights, Privileges and Preferences of Series A preferred stock and authorized the Company's officers to file such with the Utah Division of Corporations and Commercial Code to create the Series A preferred stock. The Series A preferred stock has a par value of \$0.001 and consists of 40,000 shares. The holders of Series A preferred stock are entitled to vote with the common stockholders on all matters brought for approval of the common stockholders. In connection with any such matter, each outstanding share of Series A preferred stock is entitled to 20,000 votes of common stock of the Company. In the event of a liquidation, dissolution or winding up of the Company, the Series A preferred stock shall rank in parity with the Company's common stock. Holders of Series A preferred stock are entitled to receive dividends, when, as and if declared by the board of directors. The Series A preferred stock shall rank in parity with the Company's common stock as to any dividends. As of December 31, 2019, and 2018, 16,000 shares of the Series A preferred stock were outstanding.

The Company also has voting common stock of 800,000,000 shares authorized at December 31, 2019 and 2018, and 12,800,000 and 12,800,000 shares issued and outstanding, respectively. The Company purchased no shares of treasury stock at cost during fiscal 2019 and 2018, respectively. As of December 31, 2019, and 2018, the Company paid dividends declared in September 2015 of \$0 and \$0, respectively.

**M. Share Based Compensation**

The Company has adopted the fair value method of accounting for stock-based employee compensation in accordance with statement of ASC Topic 718, "Compensation – Stock Compensation" which requires that equity-based payments (to the extent they are compensatory) be recognized in its consolidated statements of operations based on their fair value.

**N. Trade Receivables**

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 date of invoice. 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. In order 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 a situation where a customer may not be able to meet its financial obligations due to deterioration of its financial viability, credit ratings 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 fiscal year-end 2019 and 2018, the Company's bad debt reserve of \$30,525 and \$28,442, respectively as a general reserve for certain balances over 90 days past due and for accounts that are potentially uncollectible.

The percentages of the amounts due from major customers to total accounts receivable as of December 31, 2019 and 2018, are as follows:

	12/31/19	12/31/18
Customer A	18%	27%
Customer B	7%	9%
Customer C	8%	8%

**Pacific Health Care Organization, Inc.**  
**Notes to Consolidated Financial Statements**  
**Years Ended December 31, 2019 and 2018**

**O. Major Customers**

The Company provides services to insurers, third party administrators, self-administered employers, municipalities and other industries. The Company can provide a full range of services to virtually any size employer in the state of California. The Company is also able to provide utilization review, medical bill review and medical case management services both inside and outside the state of California.

During 2019, Preferred Operator Group, LLC (POG) and Hilton Worldwide accounted for approximately 26% and 14% respectively, of our total sales.

**P. Leases**

Prior to January 1, 2019, the Company accounted for leases under ASC 840, Accounting for Leases. Effective January 1, 2019, the Company adopted 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 adopted ASC 842 using a modified retrospective approach. As a result, the comparative financial information has not been updated and the required disclosures prior to the date of adoption have not been updated and continue to be reported under the accounting standards in effect for those periods. The adoption of ASC 842 on January 1, 2019 resulted in the recognition of operating lease right-of-use assets of \$719,861, lease liabilities for operating leases of \$719,861, and a zero cumulative-effect adjustment to accumulated deficit. The Company elected to exclude from its balance sheets recognition of leases having a term of 12 months or less ("short-term leases"). Lease expense is recognized on a straight-line basis over the lease term. If a Company lease does not provide an implicit rate, the Company develops an estimated incremental borrowing rate at the commencement date based on the estimated rate at which it would borrow, in the current economic environment, an amount equal to the lease payments over a similar term on a collateralized basis which is used to determine the present value of lease payments. The Company had no finance leases at December 31, 2019.

**Q. Subsequent Events**

In accordance with ASC 855-10 Company management reviewed all material events through the date of issuance and except as follows, there are no material subsequent events to report. As of the date of issuance of the financial statements, it is difficult to determine the impact the COVID-19 outbreak will have on the Company. The extent of its impact will depend upon future developments that are highly uncertain and cannot currently be predicted with any level of confidence. As discussed elsewhere in this report, the Company has begun to implement measures to allow it to continue essential business operations remotely, if and as needed. The Company continues to monitor the situation. No impairments were recorded as of the balance sheet date as no triggering events or changes in circumstances had occurred as of year-end; however, due to significant uncertainty surrounding the situation, management's judgment regarding this could change in the future. In addition, while the Company's results of operations, cash flows and financial condition could be negatively impacted, the extent of the impact cannot be reasonably estimated at this time.

**NOTE 3 – 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 may be expected to cause a material impact on our financial statements.

**Pacific Health Care Organization, Inc.**  
**Notes to Consolidated Financial Statements**  
**Years Ended December 31, 2019 and 2018**

**NOTE 4 – FIXED ASSETS**

The Company capitalizes the purchase of equipment and fixtures for major purchases more than \$1,000 per item. Capitalized amounts are depreciated over the useful life of the assets using the straight-line method of depreciation which is five years for computer equipment, office equipment, and furniture and fixtures. Scheduled below are the assets, costs and accumulated depreciation at December 31, 2019 and 2018.

Assets	Cost		Accumulated Depreciation and Amortization	
	December 31, 2019	December 31, 2018	December 31, 2019(1)	December 31, 2018
Computer equipment	\$ 464,388	\$ 405,219	\$ 369,700	\$ 317,513
Furniture and fixtures	215,960	215,960	187,108	157,013
Office equipment	9,556	9,556	8,469	14,582
Totals	<u>\$ 689,904</u>	<u>\$ 630,735</u>	<u>\$ 565,277</u>	<u>\$ 489,108</u>

(1) Depreciation and amortization expense for the years ended December 31, 2019 and 2018, totaled \$76,168 and \$67,084, respectively.

**NOTE 5 – INCOME TAXES**

The Company accounts for corporate income taxes in accordance with FASB ASC 740-10 “Income Taxes.” FASB ASC 740-10 requires an asset and liability approach for financial accounting and reporting for income tax purposes.

The tax provision for the years ended December 31, 2019 and 2018, consisted of the following:

	2019	2018
Current		
Federal	\$ 299,795	\$ 376,637
State	141,633	172,788
Deferred		
Federal	29,346	(14,523)
State	11,301	(5,272)
Total tax provision	<u>\$ 482,075</u>	<u>\$ 529,630</u>

**Pacific Health Care Organization, Inc.**  
**Notes to Consolidated Financial Statements**  
**Years Ended December 31, 2019 and 2018**

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The Company's total deferred tax liabilities, deferred tax assets, and deferred tax asset valuation allowances at December 31, 2019 and December 31, 2018, are as follows:

	<b>2019</b>	<b>2018</b>
Depreciation		
Federal	\$ (26,172)	\$ (27,192)
State	(8,703)	(12,562)
Reserve for bad debts		
Federal	5,029	4,197
State	1,672	1,939
Deferred Rent		-
Federal	6,289	5,014
State	2,091	2,316
Deferred Revenues		
Federal	9,674	8,726
State	3,217	4,031
State tax deductions	29,722	33,156
Vacation accrual		
Federal	-	29,987
State	-	13,853
Net deferred tax asset	<u>\$ 22,819</u>	<u>\$ 63,465</u>

The reconciliation of income tax computed at statutory rates of income tax benefits is as follows:

	<b>2019</b>	<b>2018</b>
Expense at federal statutory rate of 21%	\$ 352,828	\$ 396,775
State tax effects	120,818	132,337
Non-deductible expenses	9,455	9,054
Effects of rate change	-	-
Other items	(1,026)	(8,536)
Income tax provision	<u>\$ 482,075</u>	<u>\$ 529,630</u>

The Financial Accounting Standards Board (FASB) has issued ASC 740-10 (Prior authoritative literature: Financial Interpretation No. 48, "Accounting for Uncertainty in Income Taxes - An Interpretation of FASB Statement No. 109 (FIN 48))." ASC 740-10 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with prior literature FASB Statement No. 109, Accounting for Income Taxes. This standard requires a company to determine whether it is more likely than not that a tax position will be sustained upon examination based upon the technical merits of the position. If the more-likely-than-not threshold is met, a company must measure the tax position to determine the amount to recognize in the financial statements. As a result of the implementation of this standard, the Company performed a review of its material tax positions in accordance with recognition and measurement standards established by ASC 740-10.

**Pacific Health Care Organization, Inc.**  
**Notes to Consolidated Financial Statements**  
**Years Ended December 31, 2019 and 2018**

The Company follows the interpretations of the FASB, which establishes a single model to address accounting for uncertain tax positions. The interpretations clarify the accounting for income taxes by prescribing a minimum recognition threshold a tax position is required to meet before being recognized in the financial statements and provide guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition.

The Company takes a two-step approach to recognizing and measuring uncertain tax positions. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the tax position will be sustained on audit, including resolution of any related appeals or litigation processes. The second step is to measure the tax benefit as the largest amount that is more than 50% likely of being realized upon effective settlement. The Company re-evaluates its income tax positions on a quarterly basis to consider factors such as changes in facts or circumstances, changes in or interpretations of tax law, effectively settled issues under audit, and new audit activity. Such a change in recognition or measurement would result in recognition of a tax benefit or an additional charge to the tax provision. Interest and penalties on unrecognized tax benefits are classified as income tax expense.

The Company includes interest and penalties arising from the underpayment of income taxes in the consolidated statements of operations in the provision for income taxes. As of December 31, 2019, the Company had no accrued interest or penalties. The years 2016, 2017, 2018 are still open for examination by the Internal Revenue Service.

#### **NOTE 6 – LEASES**

In April 2017, we entered a 39-month operating lease for an office copy machine with monthly payments at \$1,723.

In July 2015, the Company entered a new 79-month office lease that commenced on September 28, 2015. The lease provides for approximately 9,439 square feet of office space. This office space serves as the principal executive offices of the Company, as well as, the principal offices of the Company's operating subsidiaries, Medex, IRC, MLS, MMM, MMC and PMHC.

Operating lease right-of-use ("ROU") assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. ROU assets represent our right to use an underlying asset for the lease term and lease liabilities represent our obligation to make lease payments arising from the lease. Generally, the implicit rate of interest in arrangements is not readily determinable and the Company utilizes its incremental borrowing rate in determining the present value of lease payments. The Company's incremental borrowing rate is a hypothetical rate based on its understanding of what its credit rating would be. The operating lease ROU asset includes any lease payments made and excludes lease incentives.

The components of lease expense and supplemental cash flow information related to leases for the period are as follows:

	<b>Year Ended December 31, 2019</b>
<b><u>Lease Cost</u></b>	
Operating lease cost (included in general and administrative in the Company's condensed consolidated statement of operations)	\$ 610,186
<b><u>Other Information</u></b>	
Cash paid for amounts included in the measurement of lease liabilities for the year ended December 31, 2019	\$ 277,844
Weighted average remaining lease term – operating leases (in years)	2.30 years
Average discount rate – operating leases	5.75%

**Pacific Health Care Organization, Inc.**  
**Notes to Consolidated Financial Statements**  
**Years Ended December 31, 2019 and 2018**

The supplemental balance sheet information related to leases for the period is as follows:

	<b>At December 31, 2019</b>
<u>Operating leases</u>	
Long-term right-of-use assets	\$ 558,945
Short-term operating lease liabilities	\$ 266,480
Long-term operating lease liabilities	292,465
Total operating lease liabilities	<u>\$ 558,945</u>

Maturities of the Company's undiscounted lease liabilities are as follows:

<b>Year Ending</b>	<b>Operating Leases</b>
2020	\$ 281,803
2021	257,024
2022	71,359
Total lease payments	610,186
Less: Imputed interest/present value discount	(51,241)
Present value of lease liabilities	<u>\$ 558,945</u>

Lease expenses were \$261,087 and \$274,019 during the years ended December 31, 2019 and 2018, respectively.

#### **NOTE 7 – ACCRUED AND OTHER LIABILITIES**

Accrued liabilities consist of the following:

	<b>2019</b>	<b>2018</b>
Salaries and wages	\$ 75,779	\$ 54,579
Compensated absences	123,027	162,169
Legal fees	9,150	2,760
Accounting fees	25,964	11,732
Sales commissions	14,680	14,001
Other	1,304	3,214
Total	<u>\$ 249,904</u>	<u>\$ 248,455</u>

#### **NOTE 8 – EQUITY INCENTIVE AWARDS**

##### **2018 Plan**

The Pacific Health Care Organization, 2018 Equity Incentive Plan (the “2018 Plan”) became effective on April 6, 2018. The 2018 Plan permits the granting of 8,000,000 shares of Common Stock. No awards or grants have been awarded or granted under the Plan. The 2018 Plan provides for grants of equity incentive compensation to employees and consultants of the Company and such other individuals as the Company reasonably expects to become employees or consultants of the Company. The 2018 Plan allows for awards of (a) incentive stock options, (b) non-qualified stock options, (c) stock appreciation rights, (d) restricted awards, and (e) other equity-based awards. The 2018 Plan will terminate automatically on the tenth anniversary of the 2018's Plan Effective Date. The 2018 Plan is currently administered by the full board of directors.

**Pacific Health Care Organization, Inc.**  
**Notes to Consolidated Financial Statements**  
**Years Ended December 31, 2019 and 2018**

### Stock Options

The following table summarizes activity for the Company's stock options outstanding (all of which are non-vested) during the years ended December 31, 2018 and 2017:

	Number of Shares	Weighted Average Exercise Price per Share	Weighted Average Grant Date Fair Value per Share
Outstanding at December 31, 2017	1,360,000	\$ 0.94	\$ 0.60
Granted	-	-	-
Exercised	-	-	-
Forfeited/cancelled*	(1,360,000)	\$ 0.94	\$ 0.60
Outstanding at December 31, 2018	-	-	-
Granted	-	-	-
Exercised	-	-	-
Forfeited/cancelled	-	-	-
Outstanding at December 31, 2019	-	-	-

\* These options were granted on August 17, 2017, and were subject one-year vesting conditions. Prior to vesting, the option holders expressed their intent to forfeit their options back to the Company for cancellation. On May 14, 2018, the Company entered into Stock Option Cancellation Agreements (the "Cancellation Agreements") with each of the option holders and the options were forfeited back to the Company for cancellation. The forfeitures were made without any expectation on the part of the option holders to receive, and without any obligation on the Company to pay or grant, any cash, equity awards or other consideration presently or in the future with respect to the cancelled options.

### NOTE 9 – LITIGATION

From time to time, the Company may become involved in various lawsuits and legal proceedings which arise in the ordinary course of business. Litigation is subject to inherent uncertainties, and an adverse result in such matters may arise from time to time that may harm the Company's business. To the knowledge of management, there is no material litigation or governmental agency proceeding pending or threatened against the Company or any of its subsidiaries. Further, the Company is not aware of any material proceeding to which any director, member of senior management or owner of record or beneficially of more than five percent of any class of voting securities of the Company or any of its subsidiaries, or any associate of any of them is a party adverse to or has a material interest adverse to the Company or any of its subsidiaries.

### NOTE 10 – BENEFITS AND OTHER COMPENSATION

The Company offers a 401(k)-profit sharing plan for employees who meet the eligibility requirements. Pursuant to the plan, we may make discretionary matching contributions and/or discretionary profit-sharing contributions to the plan. All such contributions must comply with federal pension laws, non-discrimination requirements and the terms of the plan. In determining whether to make a discretionary contribution, the board of directors would evaluate current and prospects and management's desire to reward and retain employees and attract new employees. To date, the Company has never made matching contributions and/or discretionary profit-sharing contributions to any plan.

**ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

None.

**ITEM 9A. 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 Commission’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 and 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, under the supervision and with the participation of our principal executive officer and principal financial officer, conducted an evaluation the effectiveness of our disclosure controls and procedures as of the end of the period covered by this Annual Report on Form 10-K. Based on the evaluation of our disclosure controls and procedures as of December 31, 2019, the end of the period covered by this Annual Report on Form 10-K, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective at a reasonable assurance level.

*Management’s Report on Internal Control over Financial Reporting*

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) or 15d-15(f) under the Exchange Act.

Our internal control over financial reporting refers to a process designed by, or under the supervision of, our principal executive officer and principal financial officer and effected by our board of directors, management and other personnel, 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 and includes those policies and procedures that: (i) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of our assets; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of our assets that could have a material effect on our financial statements.

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting as of the end of the period covered by this Annual Report on Form 10-K. This evaluation was based on the framework set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control-Integrated Framework (2013)*. Based on this evaluation our management, including our Chief Executive Officer and our Chief Financial Officer concluded that our internal control over financial reporting is effective as of December 31, 2019.

*Changes in Internal Control Over Financial Reporting*

There were no changes in our internal control over financial reporting that occurred during the quarter ended December 31, 2019, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.



*Inherent Limitations on Effectiveness of Controls*

Our management does not expect that our disclosure controls and procedures or our internal control over financial reporting will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of a simple error or mistake. Additionally, controls can be circumvented by the individual acts, by collusion of two or more people or by management override of the controls. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, controls may become inadequate because of changes in conditions, or the degree of compliance with policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

**ITEM 9B. OTHER INFORMATION**

None.

### PART III

#### ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The following table sets forth our executive officers and directors, their ages, and all offices and positions they hold with the Company as of March 25, 2020. There is no agreement or understanding between the Company or any other person and any director or executive officer pursuant to which he or she was selected as a director or executive officer.

Name	Age	Positions with the Company	Director Since	Executive Officer Since
Tom Kubota	80	Chief Executive Officer, President and Chairman of the Board of Directors	Sept. 2000	Sept. 2000
Fred Odaka	83	Chief Financial Officer and Secretary		Aug. 2008
David Wang	57	Director	Nov. 2007	
Stacy Hadley	52	Director	Nov. 2016	
Günter Soraperra	60	Director	Nov. 2016	
Lauren Kubota	36	Director and Risk Manager	Feb. 2018	
Kristina Kubota	35	Director and Controller	Feb. 2018	

**Tom Kubota.** Since 2000, Mr. Kubota has been primarily engaged in the operations of the Company. Mr. Kubota also has over thirty years of experience in the investment banking, securities and corporate finance field. He held the position of Vice President at Drexel Burnham Lambert; at Stem, Frank, Meyer and Fox; and at Cantor Fitzgerald. Mr. Kubota also founded Nanko Investments, Inc. and Laurkat Inc., in 1996 and 2018, respectively, which specialized in providing capital formation services to high tech and natural resources companies. Mr. Kubota served as president of each firm from the time they were founded until 2019 when he elected to shutter their respective operations. He has expertise in counseling emerging public companies and has previously served as a director of both private and public companies. Mr. Kubota is not currently, nor has he in the past five years been, a nominee or director of any other SEC registrant. In concluding that Mr. Kubota was an appropriate candidate to serve on the Company's board of directors, the board considered his experience as the Company's president and chief executive officer, his many years of investment banking and corporate finance experience and his prior management experience.

**Fred Odaka.** Mr. Odaka joined the Company as CFO in August 2008. He has held senior level management positions in corporate finance for over 40 years and has served as CFO for private and public companies. Prior to joining the Company, from 1998 to May 2008, Mr. Odaka was CFO of Rx for Africa, Inc. ("RXAF"), f/k/a Diamond Entertainment Corporation ("DMEC") – OTCBB. At the time, RXAF owned and operated a large pharmaceutical plant in Addis Ababa, Ethiopia. Prior to the merger, DMEC marketed and sold DVD titles to the home video market primarily through mass merchandisers and department stores. For four years, Mr. Odaka was a Financial Consultant and Analyst for Kibel, Green Inc., a leading West Coast business advisory and financial service firm specializing in corporate re-structure and crisis intervention. Mr. Odaka was also a co-founder of Rexion Inc., a manufacturer of computers and computer peripheral equipment and from 1978 to 1984 held the position of Vice President/CFO and was instrumental in taking the company public. Mr. Odaka also served as Controller of the computer division of Perkin-Elmer, a NYSE traded company. Mr. Odaka received his Bachelor of Science degree in Finance from Fresno State College, Fresno, California.

**David Wang.** Mr. Wang has been serving as the Co-CEO of Hacknowledge, LLC since 2018. Hacknowledge is a cybersecurity company that offers a Managed Detection and Response (MDR) solution. Mr. Wang is responsible for day-to-day operations of the company with a current focus on business development, marketing and sales. Mr. Wang served as a managing member of Reef Capital Management, LLC from late 2013 to 2017. He was responsible for managing a fund that was created to generate long-term cash flow to investors by investing primarily in drilling and development of oil projects. Prior to joining Reef Capital Management, from 2010, Mr. Wang was a consultant to high tech companies. He assisted a cloud computing company expand its coverage outside of Asia and assisted a cell phone manufacture explore a joint venture with a manufacturer in Brazil to build low cost smart phones and tablets utilizing various government tax incentives. Mr. Wang earned a BS in Computer Science/Mathematics from the University of California, Los Angeles (UCLA) in 1985. He earned an MBA degree with an emphasis in Financial and Entrepreneurial Studies from the Anderson School at UCLA in 2000. Mr. Wang is not currently, nor has he in the past five years been, a nominee or director of any other SEC registrant. In concluding that Mr. Wang was an appropriate candidate to serve on the Company's board of directors, the board considered his education background, his experience in entrepreneurial business enterprises and his favorable history of attracting venture capital funds through his established contacts in the investment banking community.

**Stacy Hadley.** Mrs. Hadley has over 20 years of accounting and audit experience. She has been employed with Now CFO, a provider of outsourced accounting and financial solutions, since September 2015. Mrs. Hadley is currently a Partner at Now CFO. She is currently responsible for consulting services in Salt Lake City area overseeing projects and serving as Controller/CFO for various companies. From November 2014 to September 2015, Mrs. Hadley was employed by Harman International as a Compliance and Financial Consultant where, among other things, she oversaw compliance reporting of four business units and divisional shared services, worked with finance directors to implement and document internal control testing, and documented procedures to ensure adherence with company policies and internal controls. From December 2012 to November 2014, Mrs. Hadley served as the Controller for Dalbo Holdings where she was responsible for general ledger accounting, analyzing and reconciling accounts and records for service lines, verifying revenues, expenses and other accounting functions. Mrs. Hadley received licensure as a Certified Public Accountant in July 2014. Mrs. Hadley received a Bachelor's of Science Degree in Accounting and a Master's Degree in Accounting from Weber State University, Utah in 2010 and 2012, respectively. During the past five years Mrs. Hadley has not served, and she does not currently serve, as a director of any other SEC registrant or any registered investment company. The board of directors considered Mrs. Hadley's years of accounting and auditing experience both with accounting firms, and in-house with a number of different employers, as well as her educational background and her CPA licensure in concluding that she is qualified to serve on the Company's board of directors.

**Günter Soraperra.** Mr. Soraperra has served as the Chief Executive Officer of Traunkristall Design since 2000. Traunkristall specializes in the design, production, and sale of high-end hand-made crystal products and has business activities in more than 25 countries. Among other things, Mr. Soraperra is responsible for setting strategy and direction, allocation of capital, and overseeing sales and marketing at Traunkristall. Mr. Soraperra received a Master of Business Administration degree from the University of Graz, Austria in 1990. Over the past fifteen years Mr. Soraperra has also served as a Senior Vice President of a private Swiss investment group responsible for coordinating international activities, financing and mergers and acquisitions. He has also served on the advisory boards of various international companies. In the past five years Mr. Soraperra has not served, and he does not currently serve, as a director of any other SEC registrant or any registered investment company. In concluding that Mr. Soraperra was qualified to serve on the Company's board of directors, the board considered Mr. Soraperra's years of strategy, management, finance and operational experience.

**Lauren Kubota.** Ms. Kubota joined the Company in June 2014. As the Risk Manager, Ms. Kubota currently directs risk management activities, where she identifies and mitigates legal, insurance, financial, security, disaster recovery and business continuity, human resources, vendor, and other business risks. In this capacity, Ms. Kubota is responsible for developing and implementing policies, procedures, and best practices to comply with applicable laws and regulations, contract terms, and other best business practices essential to the continued successful operation of the Company. She has also developed and implemented numerous initiatives in client retention, government relations, vendor management, SOP and report reform, project management, sales and marketing, information technology, information security, premises improvement, systems optimization, accreditation, employee recruitment and retention, leadership training, employee engagement, communications, and other business elements whose improvement tends to ameliorate risk to the Company. During her time employment with the Company, Ms. Kubota has also served in project-based roles, sometimes concurrently, as an Account Manager (3.5 years), Quality Assurance Auditor (6 months), and in launching the Company's Workers' Compensation Lien Defense service line (6 months). Ms. Kubota is an attorney licensed to practice law in California. She earned a Bachelor of Arts degree in Political Science from the University of California, San Diego in 2005 and a Juris Doctorate from the University of California, Hastings College of the Law in 2011. Since January 2018, Ms. Kubota has served on the volunteer board of directors of the Pasadena Roving Archers Heritage, Inc. a 501(c)(3) nonprofit, as the Director of Public Relations. This nonprofit corporation is not an SEC registrant. She was appointed to the board of directors of the Company in February 2018. Ms. Kubota is not currently, nor has she in the past five years, been a nominee or director of any other SEC registrant. In determining that Ms. Kubota was a suitable candidate to serve on the Company's board of directors, the board considered her educational background and legal experience, as well as her knowledge of and comprehensive participation in the policies and operations of the Company.

**Kristina Kubota.** Ms. Kubota joined the Company as a Quality Assurance Auditor in January 2014. As a Quality Assurance Auditor, Ms. Kubota was responsible for developing and auditing policies and procedures, developing and implementing data analyses and reporting capabilities that optimize statistical efficiency and quality. She has also developed and implemented policies and procedures which resulted in Medex Managed Care receiving full accreditation for Workers' Compensation Utilization Review Management from the Utilization Review Accreditation Commission ("URAC"). Ms. Kubota was promoted to the position of Controller of the Company in November 2017. Prior to joining the Company, from June 2010 to January 2014, Ms. Kubota served as a personal assistant for the CEO of Norm's Restaurant providing administrative support. Ms. Kubota earned a Bachelor of Arts degree in Finance from California State University, Northridge in 2012. Ms. Kubota is not currently, nor has she in the past five years been, a nominee or director of any other SEC registrant. In determining that Ms. Kubota was a suitable candidate to serve on the Board, the Board considered her educational background, URAC accreditation and financial and accounting experience, including her knowledge of data and statistical analytics skills.

#### **Family Relationships**

Lauren Kubota and Kristina Kubota are sisters and are daughters of Tom Kubota.

#### **Code of Ethics**

Our board of directors has adopted a code of ethics that applies to our principal executive officer, principal financial officer, principal accounting officer or controller or to persons performing similar functions. The code of ethics is designed to deter wrongdoing and to promote (i) honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships, (ii) full, fair, accurate, timely and understandable disclosure in reports and documents we file with, or submit to, the Commission and in other public communications we make, (iii) compliance with applicable governmental laws, rules and regulations, (iv) prompt internal reporting of violations of the code, and (v) accountability for adherence to the code. We will provide a copy of our code of ethics, without charge, to any person upon receipt of written request for such delivered to our corporate headquarters. All such requests should be sent care of Pacific Health Care Organization, Inc., Attn: Corporate Secretary, 1201 Dove Street, Suite 300, Newport Beach, California 92660. A copy of our code of ethics has been posted on our website and may be viewed at [www.pacifichealthcareorganization.com](http://www.pacifichealthcareorganization.com). If we make any substantive amendments to, or grant any waivers from, the code of ethics for any officer or director, we will disclose the nature of such amendment or waiver on our website or in a Current Report on Form 8-K.

**Committees of the Board of Directors**

The OTCQB does not require us to have a separately designated standing audit committee, a compensation committee or a nominating and corporate governance committee. Our board of directors has determined that it is in the Company's best interest to have the full board fulfill the functions that would be performed by these committees.

While we do not currently have a standing audit committee, our board of directors believes that were it to establish an audit committee, Mrs. Hadley would qualify as an independent director and possesses the attributes necessary to be considered an "audit committee financial expert" under the rules adopted by the Commission pursuant to the Sarbanes-Oxley Act of 2002.

**Procedures for Security Holders to Nominate Candidate to the Board of Directors**

There have been no material changes to the procedures by which shareholders may recommend nominees to our board of directors since March 30, 2012, the date we last provided information regarding our director nomination process.

**ITEM 11. EXECUTIVE COMPENSATION**

The table below summarizes compensation paid to or earned by our named executive officers ("NEOs") for the years ended December 31, 2019 and 2018. No other executive officer of the Company had total compensation of \$100,000 or more during the year ended December 31, 2019.

**Summary Compensation Table**

<b>Name and Principal Position</b>	<b>Year</b>	<b>Salary (\$)</b>	<b>Stock Awards (\$)</b>	<b>All Other Compensation (\$)</b>	<b>Total (\$)</b>
Tom Kubota	2019	186,092	-	97,628 (1)	283,720
Chief Executive Officer, President and Director	2018	183,673	-	52,167 (2)	235,840
Fred Odaka	2019	111,321	-	60,878 (3)	172,774
Chief Financial Officer	2018	110,336	-	10,587 (4)	120,923

(1) Reflects health insurance premiums, auto expense, director's fees, and partial payout of unused paid time off of \$3,695, \$1,120, \$5,100 and \$87,713 respectively.

(2) Reflects health insurance premiums, auto expenses, director's fees and a partial payout of unused paid time off of \$1,998, \$4,165, \$4,800 and \$40,004, respectively.

(3) Reflects health insurance premiums, director's fees, partial payout of unused paid time off and other compensation of \$5,542, \$5,100, \$49,202 and \$1,034, respectively.

(4) Reflects health insurance premiums and director's fees of \$5,787 and \$4,800, respectively.

**Narrative Disclosure to Summary Compensation Table****Employment Agreements**

We have a written employment agreement with Mr. Odaka. We do not have a written employment agreement with Mr. Kubota. Each of our NEOs is employed/retained on an at-will basis and each can terminate their employment arrangement with the Company at any time, with or without cause. Likewise, we can terminate their employment at any time, with or without cause.

*Base Salary*

Base salary is used to recognize the experience, skills, knowledge and responsibilities required of our NEOs. The base salary for each NEO is typically set at the time the individual is hired based on the factors discussed in the preceding sentence and the negotiation process between us and the NEO. We also take into consideration the individual's past performance and experience, the expertise we need and local market and labor conditions. Changes to base salary, if any, are determined based on several factors, including evaluation of performance, anticipated financial performance of the Company, economic condition and local market and labor conditions.

### *Non-Equity Incentive Compensation*

From time to time we may make cash awards to our employees, including the NEOs. Such awards may be designed to incentivize employees over a specified period pursuant to pre-established, performance-based criteria, the accomplishment of which is substantially uncertain at the time the criteria are established. In the event this type of cash award is made, it would be reflected in the “*Summary Compensation Table*” under a separate column entitled “*Nonequity Incentive Plan Compensation*.” The criteria for earning non-equity incentive bonuses may be based on corporate financial performance measures that would be developed by our board of directors at the time such non-equity incentive plan is established. Our board has discretion to determine the applicable performance measures and the appropriate weighting of such measures at the time it establishes any non-equity incentive plan. Our board of directors did not establish a non-equity incentive compensation plan during the years ended December 31, 2019 or 2018, and no non-equity incentive compensation was awarded during these years.

### *Bonuses*

We may also make cash awards to employees that are not part of any pre-established, performance-based criteria. Awards of this type are completely discretionary and subjectively determined by our board of directors at the time they are awarded. To the extent awards are made to our NEOs, such awards would be reported in the “*Summary Compensation Table*” in the column entitled “*Bonus*.”

The Company is under no contractual or other obligation to award cash bonuses. During the years ended December 31, 2019 or 2018, the Company awarded total aggregate bonuses of \$0 and \$0, respectively to our NEOs.

### *Equity Incentive Compensation*

Our equity incentive award program is a vehicle we may use to offer long-term incentives to our employees. From time to time, we may also make equity incentive awards to our NEOs, employees, and consultants in the form of stock options, restricted stock grants or some other form of equity award. Equity incentive awards are reflected in the “*Summary Compensation Table*” under the columns entitled “*Stock Awards*” and “*Option Awards*” as appropriate.

Our board of directors has no obligation to award equity incentive compensation. That does not mean the board of directors may not, as it deems appropriate, award equity incentive compensation when it deems such to be appropriate in the future.

During the years ended December 31, 2019 or 2018, our board of directors awarded no equity incentive compensation to our NEOs.

### *Benefits and Other Compensation*

We currently provide health care benefits, including medical, vision and dental insurance, subject to certain deductibles and co-payments to our full-time employees. We also provide for paid time off (“PTO”), which includes vacation, sick leave and other out-of-the-office time and is accrued and paid in accordance with our PTO policy. We may also provide group life and disability insurance to employees who are eligible to participate in such programs.

We offer a 401(k)-profit sharing plan for employees who meet the eligibility requirements. Pursuant to the plan, we may make discretionary matching contributions and/or discretionary profit-sharing contributions to the plan. All such contributions must comply with federal pension laws, non-discrimination requirements and the terms of the plan. In determining whether to make a discretionary contribution, the board of directors would evaluate current and prospects and management’s desire to reward and retain employees and attract new employees. To date, we have never made matching contributions and/or discretionary profit-sharing contributions to any plan.

Other than the foregoing, we do not offer any retirement or other benefit plans to our employees, including our NEOs, now, however, the board of directors may adopt plans as it deems to be reasonable under the circumstances.

Our NEOs are entitled to participate, if eligible under such plans, in any insurance programs we offer to our employees, are eligible for PTO and to participate in such other fringe benefit programs as we may make available to our other employees.

*Nonqualified Deferred Compensation*

We offer no defined contribution or other plan that provides for the deferral of compensation on a basis that is not tax-qualified to any of our employees including our NEOs.

*Pension Benefits*

We offer no pension or other specified retirement payments or benefits, including but not limited to tax-qualified deferred benefit plans and supplemental executive retirement plans to our NEOs.

*Termination and Change in Control*

We do not have agreements, plans or arrangements, written or unwritten, with any of our NEOs that would provide for payments or other benefits to any of our NEOs following, or in connection with, the resignation, retirement or other termination of any NEO or change in control of the Company or a change in the responsibilities of any NEO following a change in control of the Company.

**OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END**

As of December 31, 2019, there were no outstanding equity awards held by our NEOs.

None of our NEOs exercised any stock options or had any stock vest related to grants made in connection with their employment during the years ended December 31, 2019 or 2018.

**DIRECTOR COMPENSATION**

We offer cash compensation to attract and retain candidates to serve on our board of directors.

*Meeting Fees*

All directors receive a fee of \$1,200 and the recording secretary receives a fee of \$350 per meeting for each meeting attended either in person or telephonically. Additionally, all directors are paid \$1,000 for attendance at the annual meeting of stockholders, plus airfare and hotel expense.

*Equity Compensation*

We do not currently have a fixed plan for the award of equity compensation to our directors, and we did not award any equity compensation to any of our directors during the year ended December 31, 2019.

### Director Compensation Table

The following table sets forth a summary of the compensation we paid to our directors for services on our board during the year ended December 31, 2019.

Name	Fees Earned or Paid in Cash (\$)	All Other Compensation (\$)	Total (\$)
Tom Kubota	\$ 5,100	278,620 (1)	283,720
David Wang	\$ 5,100	-	5,000
Günter Soraperra	\$ 5,100	-	4,800
Stacy Hadley	\$ 5,100	500 (2)	5,600
Lauren Kubota	\$ 5,100	75,831 (3)	80,931
Kristina Kubota	\$ 6,500 (4)	73,709 (3)	80,209

- (1) Mr. Kubota is employed as the Company's chief executive officer and President. For details regarding All Other Compensation paid to Mr. Kubota, please see "Summary Compensation Table" above.
- (2) Ms. Hadley was paid additional fees for consulting services.
- (3) Lauren and Kristina Kubota are employees of the Company. These amounts reflect their salaries and other benefits they receive in connection with their employment.
- (4) Kristina Kubota was paid additional fees as recording secretary.

### ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The following table sets forth, as of March 25, 2020:

- each person known to us to beneficially own more than 5% of our common stock or Series A preferred stock;
- each of our named executive officers;
- each member of our board of directors; and
- all our directors and executive officers as a group.

On March 25, 2020, there were 12,800,000 shares of common stock issued and outstanding and 16,000 shares of Series A preferred stock issued and outstanding.

Beneficial ownership is determined in accordance with the rules of the Commission. These rules generally attribute beneficial ownership of securities to persons who possess sole or shared voting power or investment power with respect to such securities. Except as otherwise indicated, the persons or entities listed below have sole voting and investment power with respect to all shares of the Company's common stock and Series A preferred stock beneficially owned by them, except to the extent this power may be shared with a spouse.



Unless otherwise indicated, the address of each person or entity named in the table is 1201 Dove Street, Suite 300, Newport Beach, California 92660.

Name of Beneficial Owner	Common Stock Beneficially Owned(1)		Series A Preferred Stock Beneficially Owned(2)	
	Number	%	Number	%
<b>Directors and Named Executive Officers:</b>				
Tom Kubota(3)	7,867,000	61.5%	16,000	100%
Fred Odaka	12,000	*%	--	--%
Stacy Hadley	--	--%	--	--%
Günter Soraperra	--	--%	--	--%
David Wang	--	--%	--	--%
Lauren Kubota(3)	8,000	*%	--	--%
Kristina Kubota(3)	8,000	*%	--	--%
All directors and executive officers as a group (7 persons)	7,895,000	61.7%	16,000	100%
<b>5% Shareholders:</b>				
Donald P. Balzano(4) 5422 Michelle Drive Torrance, CA 90503	878,640	6.9%	--	--%
Bruce and Sarah Everakes(5) 3442 River Falls Dr. Northbrook, IL 60062	690,856	5.4%	--	--%

\* Less than 1%.

- (1) Excludes shares of common stock that may be deemed to be beneficially owned by such persons due to their beneficial ownership of Series A preferred stock, which are convertible to common stock on a one-share-for-one-share basis at any time at the election of the holder.
- (2) Each share of Series A preferred stock is convertible to common stock on a one-share-for-one-share basis at any time at the election of the Holder. Each share of Series A preferred stock entitles its holder to vote together with the common stock as a single class on all matters presented to the Company's common stockholders for their vote. Each outstanding share of Series A preferred stock votes as 20,000 shares of common stock. The Series A preferred stock ranks in parity with the common stock on a per share basis, not on a per vote basis, as to any dividends, liquidation, dissolution or winding up of the Company.
- (3) Mr. Kubota holds the shares in the Tom Kubota Revocable Trust of 2013 (the "Trust"). Mr. Kubota is the sole Trustee and settlor of the Trust. As such he may be deemed to have voting and/or investment power over the shares held by the Trust and therefore may be deemed to be the beneficial owner of those shares. Kristina Kubota and Lauren Kubota are currently beneficiaries of the Trust. As the Trust is revocable, Mr. Kubota could revoke the Trust or change its beneficiaries at any time. Kristina Kubota and Lauren Kubota have no voting or investment power over the shares held by the Trust. If Mr. Kubota is unable or unwilling to serve in the office of Trustee, the Trust documents currently provide that Kristina Kubota and Lauren Kubota would serve as successor co-trustees of the Trust.
- (4) Mr. Balzano is a Company consultant and serves as the president of our wholly-owned subsidiaries Industrial Resolutions Coalition, Inc. and Medex Legal Support, Inc.
- (5) Based solely on the Amendment No. 1 to Schedule 13G filed by Bruce Everakes on February 15, 2019, adjusted to reflect the four-shares-for-one-share forward split of the Company's common stock that took effect on January 6, 2020.

## Equity Compensation Plans

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
	(a)	(b)	(c)
Equity compensation plans approved by security holders	-	\$ 0.00	8,000,000*
Equity compensation plans not approved by security holders	-	\$ 0.00	-
Total	-	\$ 0.00	8,000,000*

\* Adjusted to reflect the four-shares-for-one-share forward split of the Company's common stock that took effect on January 6, 2020.

### ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Except as disclosed in Item 11 *Executive Compensation*, during the years ended December 31, 2019 and 2018, we did not engage in transactions with related persons (as defined by Rule 404 of Regulation S-K (*Instructions to Item 404(a)*)) that exceeded the lesser of \$120,000 or 1% of the average of our total assets at year-end for the last two fiscal years in which any such related person had or will have a direct or indirect material interest.

#### Director Independence

The board has determined that as of date of this Annual Report on Form 10-K, that Mrs. Hadley, Mr. Soraperra and Mr. Wang would qualify as "independent directors" as that term is defined in the listing standards of the NYSE American. Such independence definition includes a series of objective tests, including that the director is not an employee of the company and has not engaged in various types of business dealings with the company. In addition, as further required by the NYSE American listing standards, the board of directors has made a subjective determination as to each independent director that no relationships exist which, in the opinion of the board of directors, would interfere with the exercise of independent judgment in carrying out the responsibilities of a director.

### ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

Fees for professional services provided by Pinnacle Accountancy Group of Utah, (a dba of Heaton & Company, PLLC), our independent registered public accounting firm during the years ended December 31, 2019 and 2018, in each of the following categories, were as follows:

	2019	2018
Audit	\$ 59,661	\$ 56,161
Audit related	-	-
Tax	-	-
All other	-	-
Total	\$ 59,661	\$ 56,161

*Audit Fees.* Audit fees were for professional services rendered in connection with the audit of the financial statements included in our Annual Report on Form 10-K and review of the financial statements included in our Quarterly Reports on Form 10-Q and for services normally provided by our independent registered public accounting firm in connection with statutory and regulatory filings or engagements.

*Board of Directors Pre-Approval Policies and Procedures.* At its regularly scheduled and special meetings, our board of directors, in lieu of an established audit committee, considers and pre-approves any audit and non-audit services to be performed by our independent registered public accounting firm. The board of directors has the authority to grant pre-approvals of non-audit services.

Our full board of directors is responsible for selection, review and oversight of our independent registered public accounting firm. The board of directors has not, as of the time of filing this Annual Report on Form 10-K with the Commission, adopted policies and procedures for pre-approving audit or permissible non-audit services performed by our independent registered public accounting firm. Instead, the board of directors as a whole has pre-approved all such services, except for services meeting a “de minimus” exception. To qualify for the “de minimus” exception, the aggregate amount of all such non-audit services provided to the Company must constitute not more than 5% of the total amount of revenues paid by us to our independent registered public accounting firm during the fiscal year in which the non-audit services are provided; such services were not recognized by us at the time of the engagement to be non-audit services; and the non-audit services are promptly brought to the attention of the board and approved prior to the completion of the audit by the board or by one or more members of the board to whom authority to grant such approval has been delegated. In the future, our board of directors may approve the services of our independent registered public accounting firm pursuant to pre-approval policies and procedures adopted by the board of directors, or an audit committee if one is standing, provided the policies and procedures are detailed as to the particular service, the board of directors is informed of each service, and such policies and procedures do not include delegation of the board of director’s responsibilities to our management.

The board of directors has determined that the provision of services by Pinnacle Accountancy Group of Utah described above is compatible with maintaining their independence as our independent registered public accounting firm.

## PART IV

### ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

#### (a)(1) Financial Statements

The following financial statements of the registrant are included in response to Item 8 of this Annual Report on Form 10-K:

Report of Independent Registered Public Accounting Firm – Pinnacle Accountancy Group of Utah, (a dba of Heaton & Company, PLLC), dated March 25, 2020.

Consolidated Balance Sheets as of December 31, 2019 and 2018.

Consolidated Statements of Operations for the years ended December 31, 2019 and 2018.

Consolidated Statements of Stockholders' Equity for the years ended December 31, 2019 and 2018.

Consolidated Statements of Cash Flows for the years ended December 31, 2019 and 2018.

Notes to Consolidated Financial Statements.

#### (a)(2) Financial Statement Schedules

Schedules are omitted because the required information is either inapplicable or presented in the consolidated financial statements or related notes.

#### (a)(3) Exhibits

Exhibit No.	Exhibit Description
3.1	<a href="#">Articles of Incorporation and Amendments thereto(1)</a>
3.2	<a href="#">Bylaws(1)</a>
3.3	<a href="#">Bylaws(2)</a>
3.4	<a href="#">Articles of Amendment to Articles of Incorporation to effect 1 share for 50 shares reverse split(3)</a>
3.5	<a href="#">Articles of Amendment to Articles of Incorporation to effect 2.5 shares for 1 share forward split(3)</a>
3.6	<a href="#">Certificate of Designation of Rights, Privileges and Preferences of Series A Preferred Stock(4)</a>
3.7	<a href="#">Articles of Amendment to Articles of Incorporation to affect four-shares-for-one-share forward split(5)</a>
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 Preferred Stock to affect a four-shares-for-one-share forward stock split(6)</a>
10.1	<a href="#">Pacific Health Care Organization, Inc. 2018 Equity Incentive Plan(7)+</a>
10.2	<a href="#">Employment Agreement, dated February 1, 2013, between Pacific Health Care Organization, Inc. and Fred Odaka(8)+</a>
14.1	<a href="#">Code of Ethics(9)</a>
21.1	<a href="#">List of Subsidiaries*</a>
31.1	<a href="#">Certification of Principal Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002*</a>
31.2	<a href="#">Certification of Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002*</a>
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*</a>
101	The following materials from Pacific Health Care Organization, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2019, formatted in XBRL (eXtensible Business Reporting Language): (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Operations, (iii) the Consolidated Statements of Stockholders' Equity, (iv) the Consolidated Statements of Cash Flows, and (v) Notes to the Consolidated Financial Statements.*

## Table of Contents

- + Indicates management contract, compensatory plan or arrangement of the Company.
- \* 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.
- (7) Incorporated by reference to Registrant's Quarterly Report on Form 10-Q as filed with the Commission on May 15, 2018.
- (8) Incorporated by reference to Registrant's Annual Report on Form 10-K as filed with the Commission on April 1, 2013.
- (9) Incorporated by reference to Registrant's Annual Report on Form 10-KSB as filed with the Commission on April 17, 2007.

(b) Exhibits:

See Item 15(a) (3) above.

(c) Financial Statement Schedules:

See Item 15(a) (2) above.

## **ITEM 16. FORM 10-K SUMMARY**

None.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

### PACIFIC HEALTH CARE ORGANIZATION, INC.

Date: March 25, 2020

By: /s/ Tom Kubota  
Tom Kubota  
Chief Executive Officer, President and  
Chairman of the Board

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dated indicated.

<b>Signatures</b>	<b>Title</b>	<b>Date</b>
<u>/s/ Tom Kubota</u> Tom Kubota	Chief Executive Officer, President and Chairman of the Board	March 25, 2020
<u>/s/ Fred U. Odaka</u> Fred U. Odaka	Chief Financial Officer	March 25, 2020
<u>/s/ David Wang</u> David Wang	Director	March 25, 2020
<u>/s/ Stacy Hadley</u> Stacy Hadley	Director	March 25, 2020
<u>/s/ Günter Soraperra</u> Günter Soraperra	Director	March 25, 2020
<u>/s/ Lauren Kubota</u> Lauren Kubota	Director	March 25, 2020
<u>/s/ Kristina Kubota</u> Kristina Kubota	Director	March 25, 2020

**EXHIBIT 21.1**

**LIST OF SUBSIDIARIES OF  
PACIFIC HEALTH CARE ORGANIZATION, INC.**

The Company has six wholly-owned subsidiaries:

Medex Healthcare, Inc. – a California corporation

Industrial Resolutions Coalition, Inc. – a California corporation

Medex Legal Support, Inc. – a Nevada corporation

Medex Managed Care, Inc. – a Nevada corporation

Medex Medical Management, Inc. – a Nevada corporation

Pacific Medical Holding Company, Inc. – a Nevada corporation

**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 Annual Report on Form 10-K 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 controls over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of 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 control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 25, 2020

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, Fred U. Odaka, certify that:

1. I have reviewed this Annual Report on Form 10-K 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 controls over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of 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 control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 25, 2020

By: /s/ Fred U. Odaka

Fred U. Odaka  
Chief Financial Officer

**EXHIBIT 32.1**

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

In connection with this Annual Report on Form 10-K of Pacific Health Care Organization, Inc. (the “Company”) for the periods ended December 31, 2019, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), Tom Kubota, as Chief Executive Officer of the Company, and Fred U. Odaka, as Chief Financial Officer of the Company, each hereby certifies, pursuant to 18 U.S.C. §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: March 25, 2020      By: /s/ Tom Kubota  
Tom Kubota  
Chief Executive Officer

Date: March 25, 2020      By: /s/ Fred U. Odaka  
Fred U. Odaka  
Chief Financial Officer

This certification is deemed furnished and not filed with the Securities and Exchange Commission and is not incorporated by reference into any filing of Pacific Health Care Organization, Inc. under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended (whether made before or after the date of this Report), irrespective of any general incorporation language contained in such filing.