

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, DC 20549

FORM 10-Q

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

For the Quarterly Period Ended March 31, 2022

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.)

19800 MacArthur Boulevard, Suites 306 and 307

Irvine, California

(Address of principal executive offices)

92612

(Zip Code)

(949) 721-8272

(Registrant's telephone number, including area code)

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

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

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

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

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

Large accelerated filer ☐

Non-accelerated filer ☒

Accelerated filer ☐

Smaller reporting company ☒

Emerging growth company ☐

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

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

As of May 13, 2022, the registrant had 12,800,000 shares of common stock, par value \$0.001, issued and outstanding.

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

Item 1. Financial Information

Pacific Health Care Organization, Inc.
Condensed Consolidated Balance Sheets
(Unaudited)

	March 31, 2022	December 31, 2021
ASSETS		
Current Assets		
Cash	\$ 10,538,609	\$ 10,085,372
Accounts receivable, net of allowance of \$13,217 and \$23,083	802,277	927,990
Deferred rent assets	24,353	10,055
Income tax receivable	55,399	19,779
Receivable – other	3,000	3,000
Prepaid expenses	81,980	96,977
Total current assets	<u>11,505,618</u>	<u>11,143,173</u>
Property and Equipment, net		
Computer equipment	527,574	526,249
Furniture and fixtures	226,323	226,323
Office equipment	9,556	9,556
Total property and equipment	<u>763,453</u>	<u>762,128</u>
Less: accumulated depreciation and amortization	<u>(668,979)</u>	<u>(669,592)</u>
Net property and equipment	94,474	92,536
Operating lease right-of-use assets, net	-	70,368
Other assets	33,390	26,788
Total Assets	<u>\$ 11,633,482</u>	<u>\$ 11,332,865</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts payable	\$ 61,837	\$ 44,899
Accrued expenses	366,571	315,495
Income tax payable	109,193	-
Dividend payable	37,000	37,000
Operating lease liabilities, current portion	-	70,368
Unearned revenue	38,787	33,544
Total current liabilities	<u>613,388</u>	<u>501,306</u>
Long Term Liabilities		
Deferred tax liabilities	7,154	7,154
Total Liabilities	<u>620,542</u>	<u>508,460</u>
Commitments and Contingencies		
	-	-
Stockholders' Equity		
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	\$ 16	\$ 16
Common stock, \$0.001 par value, 800,000,000 shares authorized, 12,800,000 shares issued and outstanding	12,800	12,800
Additional paid-in capital	416,057	416,057
Retained earnings	10,584,067	10,395,532
Total Stockholders' Equity	<u>11,012,940</u>	<u>10,824,405</u>
Total Liabilities and Stockholders' Equity	<u>\$ 11,633,482</u>	<u>\$ 11,332,865</u>

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

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

	Three Months Ended March 31,	
	2022	2021
Revenues:		
HCO	\$ 360,968	\$ 291,254
MPN	148,611	131,878
Utilization review	354,956	265,604
Medical bill review	120,337	96,667
Medical case management	418,762	484,433
Other	23,749	54,526
Total revenues	<u>1,427,383</u>	<u>1,324,362</u>
Expenses:		
Depreciation	4,195	12,619
Bad debt provision	4,783	-
Consulting fees	53,955	57,123
Salaries and wages	633,372	694,618
Professional fees	66,864	65,829
Insurance	83,666	86,696
Outsource service fees	143,778	101,803
Data maintenance	10,189	13,296
General and administrative	164,472	171,785
Total expenses	<u>1,165,274</u>	<u>1,203,769</u>
Income from operations	262,109	120,593
Other income (expense)		
Paycheck protection program loan forgiveness income	-	464,386
Paycheck protection program loan interest expense	-	(3,686)
Total other income (expense)	<u>-</u>	<u>460,700</u>
Income before taxes	262,109	581,293
Income tax provision	<u>(73,574)</u>	<u>(74,008)</u>
Net income	\$ 188,535	\$ 507,285
Basic earnings per share:		
Earnings per share amount	\$ 0.01	\$ 0.04
Basic common shares outstanding	12,800,000	12,800,000
Fully diluted earnings per share:		
Earnings per share amount	\$ 0.01	\$ 0.04
Fully diluted common shares outstanding	12,816,000	12,816,000

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

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

	Preferred Stock		Common Stock		Paid in	Retained	Total
	Shares	Amount	Shares	Amount	Capital	Earnings	Stockholders' Equity
Balance December 31, 2020	16,000	\$ 16	12,800,000	\$ 12,800	\$ 416,057	\$ 9,400,512	\$ 9,829,385
Net income	-	-	-	-	-	507,285	507,285
Balance March 31, 2021	16,000	\$ 16	12,800,000	\$ 12,800	\$ 416,057	\$ 9,907,797	\$ 10,336,670
Balance December 31, 2021	16,000	\$ 16	12,800,000	\$ 12,800	\$ 416,057	\$ 10,395,532	\$ 10,824,405
Net income	-	-	-	-	-	188,535	188,535
Balance March 31, 2022	16,000	\$ 16	12,800,000	\$ 12,800	\$ 416,057	\$ 10,584,067	\$ 11,012,940

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

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

	Three Months Ended March 31,	
	2022	2021
Cash flows from operating activities:		
Net income	\$ 188,535	\$ 507,285
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	4,195	12,619
Bad debt provision	4,783	-
Paycheck protection program loan forgiveness	-	(460,700)
Changes in operating assets and liabilities:		
Decrease in accounts receivable	120,930	220,693
Increase in deferred rent assets	(14,298)	(5,213)
Decrease in receivable – other	-	1,000
Decrease in prepaid expenses	14,997	9,216
Increase in taxes receivable	(35,620)	-
Increase in other assets	(6,602)	-
Increase in accounts payable	16,938	17,985
Increase in accrued expenses	51,076	21,796
Decrease in deferred rent expense	-	(2,725)
Increase in unearned revenue	5,243	18,563
Increase in income tax payable	109,193	74,009
Net cash provided by operating activities	459,370	414,528
Cash flows from investing activities:		
Purchase of furniture and office equipment	(6,133)	(3,234)
Net cash used in investing activities	(6,133)	(3,234)
Cash flows from financing activities:		
Net cash provided by financing activities	-	-
Increase in cash	453,237	411,294
Cash at beginning of period	10,085,372	9,498,457
Cash at end of period	\$ 10,538,609	\$ 9,909,751
Supplemental cash flow information		
Cash paid for:		
Interest	\$ -	\$ -
Income taxes	\$ 63,000	\$ -

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

Pacific Health Care Organization, Inc.
Notes to Condensed Consolidated Financial Statements
For the Three Months Ended March 31, 2022
(Unaudited)

NOTE 1 - BASIS OF FINANCIAL STATEMENT PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission (the “Commission”) and in accordance with accounting principles generally accepted in the United States (“GAAP”). Certain information and footnote disclosures normally included in consolidated financial statements have been condensed or omitted in accordance with GAAP rules and regulations. The information furnished in these interim condensed consolidated financial statements includes normal recurring adjustments and reflects all adjustments, which, in the opinion of management, are necessary for a fair presentation of such financial statements. The preparation of condensed consolidated financial statements in accordance with GAAP requires management to make estimates and assumptions that affect both the recorded values of assets and liabilities at the date of the condensed consolidated financial statements and the revenues recognized and expenses incurred during the reporting period. These estimates and assumptions affect the Company’s recognition of deferred expenses, bad debts, income taxes, the carrying value of its long-lived assets and its provision for certain contingencies. The reasonableness of these estimates and assumptions is evaluated continually based on a combination of historical and other information that comes to the Company’s attention that may vary its outlook for the future. While management believes the disclosures and information presented are adequate to make the information not misleading, the Company recommends these interim condensed consolidated financial statements be read in conjunction with its audited financial statements and notes thereto included in its annual report on Form 10-K for the year ended December 31, 2021. Operating results for the quarter ended March 31, 2022, are not necessarily indicative of the results to be expected for the year ending December 31, 2022.

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

Basis of Accounting — The Company uses the accrual method of accounting in accordance with accounting principles generally accepted in the United States for the periods ended March 31, 2022 and 2021.

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

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

The Company derives its revenue from the sale of services offered through its HCOs, MPNs, utilization review, medical bill 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 customer.

Pacific Health Care Organization, Inc.
Notes to Condensed Consolidated Financial Statements
For the Three Months Ended March 31, 2022
(Unaudited)

The Company enters into arrangements for bundled managed care, standalone services, or add-on ancillary services 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.

Accounts Receivables and Bad Debt Allowance – In the normal course of business the Company extends credit to its customers on a short-term basis. Although the credit risk associated with these customers is minimal, the Company routinely reviews its accounts receivable balances and makes provisions for doubtful accounts. The Company ages its receivables by dates of invoices. Management reviews bad debt reserves quarterly and reserves specific accounts as warranted or sets up a general reserve based on amounts over 90 days past due. When an account is deemed uncollectible, the Company charges off the receivable against the bad debt reserve. A considerable amount of judgment is required in assessing the realization of these receivables including the current creditworthiness of each customer and related aging of the past-due balances, including any billing disputes. To assess the collectability of these receivables, the Company performs ongoing credit evaluations of its customers' financial condition. Through these evaluations, the Company may become aware of situations where a customer may not be able to meet its financial obligations due to deterioration of its financial viability, credit rating or bankruptcy. The allowance for doubtful accounts is based on the best information available to the Company and is reevaluated and adjusted as additional information is received. The Company evaluates the allowance based on historical write-off experience, the size of the individual customer balances, past-due amounts, and the overall national economy. At March 31, 2022 and December 31, 2021, bad debt reserves of \$13,217 and \$23,083, respectively, were maintained in 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 March 31, 2022 and December 31, 2021, are as follows:

	<u>3/31/2022</u>	<u>12/31/2021</u>
Customer A	27%	24%
Customer B	12%	11%

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

During the periods ended March 31, 2022 and 2021, the Company had two customers, respectively, that individually accounted for more than 10% of its total sales. The following table sets forth details regarding the percentages of total sales attributable to the Company's significant customers in the past two years:

	<u>3/31/2022</u>	<u>3/31/2021</u>
Customer A	22%	20%
Customer B	10%	10%

Leases - The Company follows the guidance of ASC 842, Leases, which requires an entity to recognize a right-of-use asset and a lease liability for virtually all leases. The Company elected to exclude from its balance 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. See Note 2 for further information regarding the Company's leases.

Pacific Health Care Organization, Inc.
Notes to Condensed Consolidated Financial Statements
For the Three Months Ended March 31, 2022
(Unaudited)

NOTE 2 - OPERATING LEASES

In July 2015, the Company entered a 79-month lease for approximately 9,439 square feet of office space, which lease commenced in September 2015. This office space served as the Company's principal executive offices, as well as the principal offices of its operating subsidiaries until April 2022.

The Company entered a new 12-month office lease that commenced on April 1, 2022 with a monthly rent of \$3,301. The lease provides 320 square feet of office space that includes shared space for other business needs and expires March 31, 2023. This office space now serves as the principal executive offices of the Company, as well as the principal offices of the Company's operating subsidiaries. The Company has reduced its office space as the majority of its workforce will continue working remotely. The new office space will be for the executive team and shared office space for key employees to use as needed.

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 the Company's right to use an underlying asset for the lease term and lease liabilities represent its obligation to make lease payments arising from the lease. Generally, the implicit rate of interest in such 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 periods are as follows:

	Three Months Ended March 31, 2022
<u>Lease Cost</u>	
Operating lease cost (included in general and administrative in the Company's condensed consolidated statement of operations)	\$ 75,584
<u>Other Information</u>	
Cash paid for amounts included in the measurement of lease liabilities for the three months ended March 31, 2022	\$ 75,584
Weighted average remaining lease term – operating leases (in years)	0.08 years
Average discount rate – operating leases	5.75%

The prior lease at 1201 Dove Street, in Newport Beach, CA ended April 30, 2022, with the last month of free rent which resulted in no operating lease liabilities at March 31, 2022.

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

	At March 31, 2022	At December 31, 2021
Operating leases		
Remaining right-of-use assets	\$ -	\$ 70,368
Short-term operating lease liabilities	\$ -	\$ 70,368
Long-term operating lease liabilities	-	-
Total operating lease liabilities	<u>\$ -</u>	<u>\$ 70,368</u>

Pacific Health Care Organization, Inc.
Notes to Condensed Consolidated Financial Statements
For the Three Months Ended March 31, 2022
(Unaudited)

Lease expenses were \$75,584 and \$72,946 during the three months ended March 31, 2022 and 2021, respectively.

NOTE 3 - SUBSEQUENT EVENTS

In accordance with ASC 855-10 Company management reviewed all material events through the date of issuance and except as disclosed below, there are no material subsequent events to report.

The Company entered into a new 12-month office lease commencing on April 1, 2022 with a monthly rent of \$3,301. The lease for our prior office space expired on April 30, 2022.

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

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

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

- economic conditions generally and in the industry in which we and our customers participate, including the effects resulting from international conflicts and rising domestic inflation;
- the impact on our business of COVID-19, including the reduction of our customer's workforces as a result of a variety of COVID-19-related causes, as well as government mandates and impacts on the workers' compensation industry, the businesses of our customers and on the economy generally;
- cost reduction efforts by our existing and prospective customers;
- competition within our industry, including competition from much larger competitors;
- business combinations among our customers or competitors;
- legislative and regulatory 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;
- cybersecurity and software system failures and breaches and breaches, or the imposition of laws imposing costly cybersecurity and data protection compliance;
- disruptive technologies that could render our services less competitive or obsolete;
- reductions in worker's compensation claims or the demand for our services, from whatever source; and
- delays, reductions or cancellations of contracts we have previously entered.

For more detailed information about particular risk factors related to us and our business, see Item 1A Risk Factors of our Annual Report on Form 10-K for the year ended December 31, 2021, filed the Securities and Exchange Commission (the "Commission") on April 14, 2022 (the "Annual Report").

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

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

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

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

Overview

We incorporated under the laws of the state of Utah in April 1970, under the name Clear Air, Inc. We changed our name to Pacific Health Care Organization, Inc., in January 2001. In February 2001, we acquired Medex, a California corporation organized in March 1994, in a share for share exchange. Medex is in the business of managing and administering both Health Care Organizations (“HCOs”) and Medical Provider Networks (“MPNs”) in the state of California. In August 2001 we formed IRC, a California corporation, as a wholly owned subsidiary of PHCO. Prior to closing IRC, IRC oversaw and managed our Workers’ Compensation carve-outs services. In June 2010, we acquired MLS, a Nevada corporation incorporated in September 2009. Prior to closing MLS, MLS offered lien representation services and Medicare Set-aside services (“MSA”). In February 2012, we incorporated MMM, a Nevada corporation, as a wholly owned subsidiary of the Company. MMM is responsible for overseeing and managing medical case management services. In March 2011, we incorporated MMC, a Nevada corporation, as a wholly owned subsidiary of the Company. MMC oversees and manages the Company’s utilization review and bill review services. In October 2018, we incorporated PMHC, a Nevada corporation, as a wholly owned subsidiary of the Company to act as a holding company for future potential acquisitions.

In October 2021, to simplify business procedures, bookkeeping and administrative structure; and eliminate duplicative functions and reduce costs; we terminated the existence of IRC, MLS and PMHC and wound up those subsidiaries. The business, assets, liabilities, and services of those entities have been transferred to PHCO or its other subsidiaries. Medex now offer our Workers’ Compensation carve-out services previously provided by IRC and Medicare-set asides previously managed by MLS and MMC oversees the lien representation services previously offered by MLS.

Business of the Company

We offer an integrated and layered array of complimentary business solutions that enable our customers 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 customers, either through strategic acquisitions or organic development.

Our business objective is to deliver value to our customers that reduces their Workers’ Compensation-related medical claims expense in a manner that will assure 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 services focus on containing medical treatment costs.

We offer our customers access to our health care organizations (“HCOs”) and our medical provider networks (“MPNs”). We also provide medical case management, field medical case management, network access, utilization review, medical bill review, Workers’ Compensation carve-outs and Medicare set-aside services. Additionally, we offer lien representation and expert witness testimony, ancillary to our services. We provide our services as a bundled solution, as standalone services, or as add-on services.

Our core services focus on reducing medical treatment costs by enabling our customers to share control over the medical treatment process. This control is primarily obtained by participation in one of our medical treatment networks. We hold several government-issued licenses to operate medical treatment networks. Through Medex we hold two of a total of seven licenses issued by the state of California to establish and manage HCOs within the state of California. We also hold approvals issued by the state of California to act as an MPN and currently administer 26 MPNs. Our HCO and MPN programs provide our customers with provider networks within which our customers have some ability to direct the administration of employee claims. 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. Our medical bill and utilization review services 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 customers include self-administered employers, insurers, third party administrators, municipalities, and others. Our principal customers are companies with operations located in the state of California where the of Workers' Compensation insurance is a critical problem for employers, though we are able to process medical bills nationally. Our provider networks, which are located only in California, are composed of providers experienced in treating worker injuries.

Our business generally has a long sales cycle, typically eight months or more. Once we have established a customer relationship and enrolled employees of our customers, we anticipate our revenue to adjust with the growth or retraction of our customers' employee headcount. Throughout the year, we expect new employees and customers to be added while others terminate for a variety of reasons.

Impact of COVID-19 on our Business

We have been able to adapt our business operations to a primarily remote workforce, with no material interruptions in service, data breaches, technology failures, or inability to complete mission-critical functions. We have been able to effectively maintain contact with employees, partners, customers, and other related parties using technological solutions such as virtual meetings and enhanced collaboration programs and have developed policies and protocols to ensure department and employee performance quality is maintained despite the change in work setting. This has resulted in a shift from in-person office related costs to costs associated with maintaining a remote workforce, including reimbursing employees for internet, phone, and office supply expenses; additional computer hardware costs; and some administrative burdens in complying with California laws and regulations related to COVID-19. With fewer employees coming to the office, we have fewer costs related to sanitizing, cleaning, and providing PPE supplies to the office to prevent potential COVID-19 exposure.

Revenue for our services is derived from our customers' employee headcount and workers' workplace injuries. During the periods covered by this report, several of our customers, including some of our largest customers, had to suspend or significantly modify their operations during much or all of the pandemic. Since California lifted its COVID-19 restrictions, some of our customers continue to experience lower than normal business volume and employee counts due to the pandemic. Until the impacts of COVID-19 on our customers' businesses lessen, employees return to more normal workloads and the occurrence of workplace injuries returns to more traditional levels, we anticipate our revenues will continue to be negatively affected.

California has passed legislation to address employer liability in Workers' Compensation for COVID-19 cases. The law creates two rebuttable presumptions that COVID-19 illnesses contracted by specific categories of employees are work related and therefore eligible for workers' compensation. The first presumption applies to COVID-19 workers' compensation claims filed by peace officers, firefighters, first responders, and health care workers, and does not apply to our employees, though it may apply to our customers' claims. The second presumption, for employers with five or more employees, applies to employees who test positive for COVID-19 during an outbreak at the employee's specific place of employment. An outbreak occurs when a set number of employees – depending on the number of employees at the workplace – test positive for COVID-19 during a continuous 14-day period. This presumption applies to the Company. However, no Workers' Compensation cases related to COVID-19 and/or via this California law have been filed against the Company to date.

In April 2020, the Department of Labor issued regulations to implement the Families First Coronavirus Response Act ("FFCRA") which provided employees paid leave for COVID-19 related illness for themselves and/or a family member and provided employers with tax credits. The FFCRA expired on December 31, 2020. In March 2021, the American Rescue Plan Act ("ARPA") was signed into law. The ARPA made tax credits available to employers with fewer than 500 employees who voluntarily chose to grant employees paid leave under the FFCRA through September 30, 2021 and updated certain FFCRA leave provisions. We voluntarily chose to extend the FFCRA paid leave to our employees through its expiration on September 30, 2021, and take the tax credits. Since its expiration, we have ceased to offer COVID-19-specific paid leave benefits to our employees. Family, medical, and other types of leave remain available to employees under existing company policy.

In March 2021, California passed its own COVID-19 Supplemental Paid Sick Leave law ("CA SPSL"). It provided employees paid leave for COVID-19 related reasons such as caring for themselves, family members, or for vaccine related appointments or illnesses caused by COVID-19 or the vaccine from January 1, 2021 through September 30, 2021. The CA SPSL allowed employees to retroactively request reimbursement for qualifying leave or to use it towards future requests through September 30, 2021. Employers whose employees utilized CA SPSL are eligible for federal tax credits to offset the costs of providing the CA SPSL. On September 30, 2021, the CA SPSL paid leave expired.

In June 2021, the Governor of California terminated the executive order that put into place the Stay Home Order and Blueprint for a Safer Economy. This removed restrictions on physical distancing, capacity limits on businesses, and the county tiers system. We have elected to allow employees to continue working remotely and made arrangements to reduce our office space to an executive and shared office for other employees to come in periodically in 2022.

In February 2022, California passed another COVID-19 Supplemental Paid Sick Leave law ("CSPSL"). It provides employees paid leave for COVID-19 related reasons such as caring for themselves, family members, or for vaccine related appointments or illnesses caused by COVID-19 or the vaccine from January 1, 2022 through September 30, 2022. The CSPSL allows employees to retroactively request reimbursement for qualifying leave or to use it towards future requests through September 30, 2022. Unlike the CA SPSL from 2021, employers whose employees utilize CSPSL are ineligible for federal tax credits to offset the costs of providing the CSPSL.

We will continue to offer COVID-19-specific paid leave benefits to our employees until the expiration of CSPSL. Family, medical, and other types of leave remain available to employees under existing Company policy. As of April 2022, we have incurred negligible payroll, benefits, administrative, and liability costs related to CSPSL. However, we could incur some significant costs if a second booster shot is recommended or required later in 2022, or if another spike in COVID-19 results in increased usage of the CSPSL benefit by employees.

Unlike much of the U.S. economy, we have maintained relatively steady employee recruitment and retention. Our maintenance of a successful remote environment, including high employee morale and cohesive culture via technology, has also allowed us to seek candidates in a wider range of locations, some of which have lower costs of living and lower wage norms, as well as increasing the quantity of qualified applicants. While we cannot predict or control future trends in labor in our industry, we believe that our solid recruitment practices and the opportunities presented by remote work options will help us adapt to a changing workforce environment.

In response to COVID-19 and transitioning to a remote workforce, we have taken measures to ensure data security, but there is no guarantee that these measures will be completely effective, that our productivity will not be adversely impacted, or that we will not encounter some of the common risks associated with a remote workforce, including employees accessing company data and systems remotely. As discussed in greater detail in Item 1A Risk Factors of this annual report, our business has been and could continue to be materially and adversely affected by the potential interruptions to our business operations resulting from changes to our business model in response to COVID-19.

Summary of the Quarter ended March 31, 2022

During the quarter ended March 31, 2022, total revenues increased 8% compared to the quarter ended March 31, 2021. Revenue from HCO, MPN, utilization review and medical bill review increased 24%, 13%, 34%, 25%, respectively; revenue from medical case management and other fees decreased 14% and 56%, respectively, as compared to the quarter ended March 31, 2021.

During the quarter ended March 31, 2022, operating expenses decreased by 3%, primarily as a result of decreases in depreciation, consulting fees, salaries and wages, insurance, data maintenance and general and administration expenses compared to the quarter ended March 31, 2021. These decreases were partially offset by increases in bad debt provision, professional fees and outsource service fees. As a result, our income from operations during the quarter ended March 31, 2022 was \$262,109 compared to \$120,593 during the quarter ended March 31, 2021.

Our provision for income tax expense decreased 1% during the first fiscal quarter 2022, from \$74,008 in 2021 to \$73,574 in 2022 due to a reduction in income from operations.

Our net income also decreased 63% from \$507,285 in 2021 to \$188,535 in 2022 primarily as a result of the Paycheck Protection Program loan, in the amount of \$460,700, being forgiven in the quarter ending March 31, 2021. Basic and fully diluted earnings per share during fiscal 2022 was \$0.01 and \$0.01, respectively compared to \$0.04 and \$0.04, respectively during fiscal 2021.

Revenue

We derive revenue primarily from fees charged for access to our provider networks, enrollment of customers' employees into the HCO or MPN program, utilization reviews, medical bill reviews, and medical case management services.

HCO

HCO revenue is generated largely from fees charged to our employer customers for claim network fees to access our HCO networks, employee enrollment into our HCO program, program administration, custom network fees, annual and new hire notifications and fees for other ancillary services they may select.

MPN

Like HCO revenue, MPN revenue is generated largely from fees charged to our employer customers for claim network fees to access our MPN networks, custom network fees, employee enrollment into our MPN program, program administration, and fees for other services our MPN customers may select. Unlike the HCO, MPNs do not require annual and new hire notifications, MPNs are only required to provide a notice to an injured worker at the time the employer is notified by the injured worker that an injury occurred.

Utilization review

Utilization review is the review of medical treatment requests by providers to provide a safeguard for employers and injured workers against unnecessary and inappropriate medical treatment from the perspective of medical necessity, quality of care, appropriateness of decision-making, and timeliness of treatment. Its purpose is to reduce employer liability for medical costs that are not medically appropriate or approved by the relevant medical and legal authorities and the payor.

Medical bill review

California and many other states have established fee schedules for the maximum allowable fees payable under workers' compensation for a variety of procedures performed by medical providers. Many procedures, however, are not covered under the fee schedules, such as hospital bills, which still require review and negotiation. Medical bill review involves analyzing medical provider services and equipment billing to ascertain proper reimbursement. 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. Our medical bill review services can result in significant savings for our customers.

The following table sets forth, for the quarters ended March 31, 2022 and 2021, the percentage each revenue item identified in our unaudited condensed consolidated financial statements contributed to total revenue during the respective period.

	2022	2021
HCO	25%	22%
MPN	10%	10%
Utilization review	25%	20%
Medical bill review	9%	7%
Medical case management	29%	37%
Other	2%	4%

ExpenseConsulting fees

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

Salaries and wages

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

Professional fees

Professional fees include fees we pay to third parties to provide medical consulting, medical case management, and board of director's fees for board meetings, as well as, legal and accounting fees.

Insurance

Insurance expense is comprised primarily of health insurance benefits offered to our employees, directors' and officers' liability insurance, Workers' Compensation coverage and business liability coverage.

Outsource service fees

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

Data maintenance fees

Data maintenance fees includes fees we pay to a third party to process HCO and MPN employee enrollment. These fees fluctuate throughout the year because of the varied timing of customer enrollment into the HCO or MPN program and the number of employees our customers have in their workforce.

General and administrative

General and administrative expenses consist primarily of office rent, advertising, dues and subscriptions, equipment/repairs, IT enhancement, licenses and permits, telephone, office supplies, parking, postage, printing and reproduction, rent expense for equipment, miscellaneous expenses, shareholders' expense, charity – cash contribution, auto expenses, bank charges, education, travel and entertainment, and vacation expense.

The following table sets forth, for the quarters ended March 31, 2022 and 2021, the percentage each expense item identified in our unaudited consolidated financial statements contributed to total expense during the respective period.

	2022	2021
Depreciation	-%	1%
Bad debt provision	1%	-%
Consulting fees	5%	5%
Salaries and wages	54%	58%
Professional fees	6%	5%
Insurance	7%	7%
Outsource service fees	12%	1%
Data maintenance fees	1%	9%
General and administrative	14%	14%

Results of Operations

Comparison of the three months ended March 31, 2022 and 2021

The following represents selected components of our consolidated results of operations for the three-month periods ended March 31, 2022 and 2021, respectively, together with changes from period-to-period:

	For three months ended March 31,		Amount Change	% Change
	2022	2021		
Revenues:				
HCO	\$ 360,968	\$ 291,254	\$ 69,714	24%
MPN	148,611	131,878	16,733	13%
Utilization review	354,956	265,604	89,352	34%
Medical bill review	120,337	96,667	23,670	25%
Medical case management	418,762	484,433	(65,671)	(14%)
Other	23,749	54,526	(30,777)	(56%)
Total revenues	1,427,383	1,324,362	103,021	8%
Expense:				
Depreciation	4,195	12,619	(8,424)	(67%)
Bad debt provision	4,783	-	4,783	100%
Consulting fees	53,955	57,123	(3,168)	(6%)
Salaries and wages	633,372	694,618	(61,246)	(9%)
Professional fees	66,864	65,829	1,035	2%
Insurance	83,666	86,696	(3,030)	(4%)
Outsource service fees	143,778	101,803	41,975	41%
Data maintenance	10,189	13,296	(3,107)	(23%)
General and administrative	164,472	171,785	(7,313)	(4%)
Total expenses	1,165,274	1,203,769	(38,495)	(3%)
Income from operations	262,109	120,593	141,516	117%
Other income (expense)				
Paycheck protection program loan forgiveness income (expense)	-	464,386	(464,386)	(100%)
Paycheck protection program loan interest income (expense)	-	(3,686)	3,686	(100%)
Total other income (expense)	-	460,700	(460,700)	(100%)
Income before taxes	262,109	581,293	(319,184)	(55%)
Income tax provision	(73,574)	(74,008)	434	(1%)
Net income	\$ 188,535	\$ 507,285	\$ (318,750)	(63%)

Key trends affecting results of operations

As noted throughout this quarterly report, during the three months ended March 31, 2022 and 2021, COVID-19 has impacted the businesses of our customers, our business and our results of operations. Most of our clients, and their employees are located in California. During the three months ended March 31, 2021, California had in place COVID-19 restrictions on businesses which resulted in many of our customers reducing their workforces and caused a decrease in the number of new workers' compensation claims, as a result of fewer workers in the labor force. Allowable medical treatment for workers' compensation claims were also limited to help ease the burden of COVID-19 on medical facilities. During the three months ended March 31, 2022, the last of the COVID-19-related restrictions have been lifted in California. While revenues for HCO and MPN enrollment are steadily increasing as employers begin hiring, some of our customers' industries have been impacted by the recent national trend of workforce resignations and difficulties in hiring. If our customers cannot attract new workers, it is possible that some jobs will be replaced with technology. If technology replaces workers, and/or workplace injuries continue at lower rates because there are more employees working from home and fewer employees suffering injuries in the workplace, the increases in revenues we are beginning to see could flatten or decline.

Our revenues for medical case management were also impacted because there was a smaller labor pool which resulted in fewer new workers' compensation claims. We believe this trend will be temporary, as the economy recovers from the effects of COVID-19, but if the trend to smaller labor pools continues, medical case management reviews could continue to remain lower in the future.

Revenue

HCO

During the three-month periods ended March 31, 2022, HCO revenue increased 24%, compared to the same period in the prior year. The increase in HCO revenue was attributable to an increased number of claims, which resulted in an increase in HCO claim network fees, as well as an increase in new employees enrolled in the HCO, partially offset by the loss of two customers in 2021.

MPN

During the three-month periods ended March 31, 2022, MPN revenue increased 13%, compared to the same period in the prior year. The increase in MPN revenue was attributable to an increase in the number of claims reported by existing customers that led to an increase of MPN claim network fees.

Utilization review

During the three-month periods ended March 31, 2022, utilization review revenue increased 34%, compared to the same period in the prior year. The increase in utilization review revenue was due to the addition of a new client in the fourth quarter of 2021 and increases in utilization reviews referrals for existing customers, partially offset by the loss of a customer in 2021.

Medical bill review

During the three-month periods ended March 31, 2022, medical bill review revenue increased by 25%, compared to the same period in the prior year. The increase was mainly due to processing more medical and hospital bills from existing customers, partially offset by the loss of a customer in 2021.

Medical case management

During the three-month periods ended March 31, 2022, revenue from medical case management decreased 14%, compared to the same period in the prior year. The decrease was due to fewer new claims from existing customers.

Other

Other fees consist of revenue from network access fees derived from out of network referrals to our network of physicians, claims fees, expert witness testimony, lien representation, legal support services, Medicare set-aside, and workers' compensation carve-out services. Other fee revenue for the three-month period ended March 31, 2022, decreased 56% when compared to the same period a year earlier. The decrease was the result of fewer Medicare set-aside claims and the loss of a customer which reduced our claims fees for accessing our network. The claims fees generated by this type of service is no longer offered in the current marketplace. Since losing the customer, we have chosen to discontinue this service in 2021.

Expenses

Depreciation

During the three month period ended March 31, 2022, depreciation decreased 67% compared to the three month period ended March 31, 2021. The decrease was primarily due attributable to certain furniture, fixtures, and computer equipment being fully depreciated.

Bad debt

During the three month period ended March 31, 2022, bad debt provisions increased by \$4,783, compared to the three month period ended March 31, 2021. At March 31, 2022 and 2021, our allowances for bad debt were \$13,217 and \$23,083, respectively. The accrual for bad debt provision was to increase our allowance for bad debt accounts receivable over 90-days.

Consulting fees

During the three months ended March 31, 2022, consulting fees decreased to 6% compared to the three months ended March 31, 2021. The decrease was the result of a reduction in the number of information systems consultants retained as compared to the first quarter of 2021.

Salaries and wages

During the three-month period ended March 31, 2022, salaries and wages decreased by 9% when compared to the same period in 2021. This decrease was the result of the fewer employees in the first quarter of 2022 compared to 2021.

Outsource service fees

Outsource service fees increased 41% during the three-month period ended March 31, 2022. The increase was primarily the result of increases in the number of utilization review referrals and medical bill reviews, partially offset by decreases in medical case management administrative services and referrals sent out for Medicare set-aside arrangements. 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 three-month period ended March 31, 2022, data maintenance fees decreased 23% primarily as a result of a decrease in the number of customers' employees enrolled in our HCO program. We anticipate that as businesses recover from the pandemic that data maintenance fees will move in correspondence with the level of enrollment of customers' employees into the HCO program.

Income from Operations

Total revenues during the three-month period ended March 31, 2022 increased by 8% and total expenses decreased by 3%, resulting in an increase of 117% in income from operations when compared to the three-month period ended March 31, 2021.

Income Tax Provision

We realized a 1% decrease in our income tax provision during the three-month period ended March 31, 2022, compared to the three-month period ended March 31, 2021. In 2021, the Paycheck Protection Program loans were subject to state income tax, but not federal income tax. In the first quarter of 2022, all our income was generated by operations and subject to state and federal income tax.

Net Income

During the three-month period ended March 31, 2022, we realized an 8% increase in total revenues, a 3% decrease in total expenses, and a 1% decrease in our provision for income tax when compared to the same period in 2021. In the three-month period ended March 31, 2021, three of our Paycheck Protection Program loans of \$460,700 with interest of \$3,686 were forgiven. The net income in 2021 of \$507,285 was primarily due to the income recognized as a result of the Paycheck Protection Program loans being forgiven. As a result, we realized a net decrease of \$318,780, or 63%, in net income during the three-month period ended March 31, 2022, compared to the three-month period ended March 31, 2021.

Liquidity and Capital Resources

Liquidity is a measurement of our ability to meet our potential cash requirements for general business purposes. We consistently monitor our liquidity and financial position and take actions management believes are in the best interest of our Company and shareholders to ensure the long-term financial viability of our Company. Historically, we have realized positive cash flows from operating activities, which coupled with positive reserves of cash on hand, have been used to fund our operating expenses and obligations. We have not historically used, nor do we currently possess a credit facility or other institutional source of financing.

During the past two fiscal years we have experienced declining revenues as a result of the impacts of the COVID-19 pandemic on our business, the businesses of our customers and the overall economy, although we did experience an uptick in total revenue during the three-month period ended March 31, 2022. In April and May 2020, PHCO, MMM and MMC received first draw PPP loans in the aggregate amount of \$460,700. In the spirit of the PPP loan program policy of protecting the continued economic stability of employees, we put virtually all of the PPP loan amounts toward payroll and employee benefit expenses. In February 2021 PHCO, MMC, and MMM received full forgiveness of their first draw PPP loans including accrued interest. In April 2021 MMM received the second draw PPP loan in the amount of \$218,900. The second draw PPP loan was also used to pay for qualifying expenses, such as payroll, group health benefits, rent and utilities. In December 2021 MMM received full forgiveness of the second draw PPP loan including accrued interest. In addition to availing the Company of the benefits of these government sponsored programs, we have also focused on reducing other operating expenses while maintaining our ability to provide the high-quality care to which our customers are accustomed. Since the outbreak of the pandemic in early 2020, we have realized a net reduction in our workforce of six employees. As of the end of April 2022 the office lease on the business space we occupied at 1201 Dove Street in Newport Beach, California expired. Since the beginning of the pandemic, we have moved towards operating remotely and have taken this opportunity to reduce our office rent expense. We relocated to a smaller office with the office lease on this new space commencing on April 1, 2022. The operating costs for internet and phone and office rent will be less in the new office space. Some of those savings will be incorporated to enhance our IT security and new internet phone system.

As a result of the pandemic subsiding, restrictions being removed and employees returning to work, coupled with our efforts to transition the Company to be remote, and reductions in overhead expenses, during the first quarter of 2022 we saw an increase in revenues and a decrease in expenses. We have continued to realize net income and net cash from operations and have increased our net cash position. Management currently believes that absent (i) any unanticipated further COVID-19 impact, (ii) a longer-term downturn in the general economy as a result of inflation and the sanctions, countermeasures and other actions in response to the Russia-Ukraine conflict, or (iii) the loss of several major customers within a condensed period, cash on hand and anticipated revenues from operations will be sufficient to cover our operating expenses for at least the next twelve months.

As of March 31, 2022, we had cash on hand of \$10,538,609 compared to \$10,085,372 as of December 31, 2021. The \$453,237 increase was the result of net cash provided by our operating activities, partially offset by cash used in investing activities. We had no change in net cash provided by/used in financing activities during the first quarter of 2022.

As noted above, we have taken advantage of and may in the future further avail ourselves of federal, state, or local government programs to protect our workforce as management and our board of directors determine to be in the best interest of the Company and our shareholders.

We currently have planned certain capital expenditures including changing operational software and phone systems. We anticipate the costs to change operational software to be significantly higher than in previous years starting in 2022, but we have adequate capital on hand to cover these expenses. We do not anticipate these expenditures will require us to seek outside sources of funding.

We believe our strong cash position could allow us to identify and capitalize on potential opportunities to expand our business either through the acquisition of existing businesses that may have insufficient resources to overcome the impacts of the COVID-19 pandemic, including accretion of existing business lines or expansion into new business lines and related industries, including, but not limited to, the insurance industry. We may also seek growth through organic development of new lines of business or expansion of existing offerings. Depending upon the nature of the opportunities we identify, such acquisitions or expansion could require greater capital resources than we currently possess. Should we need additional capital resources, we could seek to obtain such through debt and/or equity financing. We do not currently possess an institutional source of financing and there is no assurance that we could be successful in obtaining equity or debt financing when needed on favorable terms, or at all. We could also use shares of our capital stock as consideration for a business acquisition transaction, but there is also no assurance that there would be significant interest in our capital stock by a potential seller or the market.

As a result of the unique nature of the COVID-19 pandemic and its impacts on our operations, the operations of our customers and the broader economy, coupled with uncertainty surrounding the potential impacts rising inflation, we cannot provide any assurance that the assumptions management has used to estimate our liquidity requirements will remain accurate in either the short-term or the longer-term. The ultimate duration and impact of these events on our business, results of operations, financial condition and cash flows is dependent on future developments, which are uncertain, largely beyond our control and cannot be predicted with any degree of certainty at this time. However, we expect that our results of operations, including revenues, in future periods will continue to be adversely impacted by the COVID-19 pandemic and potentially by rising inflation and their negative effects on economic conditions.

Cash Flow

During the quarter ended March 31, 2022, cash was primarily used to fund operations. We had a net increase in cash of \$453,237 during the quarter ended March 31, 2022. See below for additional information.

	For the three months ended March 31,	
	2022	2021
	(unaudited)	(unaudited)
Net cash provided by operating activities	\$ 459,370	\$ 414,528
Net cash used in investing activities	(6,133)	(3,234)
Net cash provided by financing activities	-	-
Net increase in cash	<u>\$ 453,237</u>	<u>\$ 411,294</u>

Net cash provided by operating activities was \$459,370 and \$414,528 during the quarters ended March 31, 2022 and 2021, respectively. The increase of \$44,842 in cash flow provided by operating activities was the result of realizing lower net income coupled with decreases in accounts receivable, depreciation, and prepaid expenses, partially offset by increases in bad debt provision, deferred rent assets, taxes receivable, other assets, accounts payable, accrued expenses, unearned revenue, and income tax payable.

Net cash used in investing activities was \$6,133 and \$3,234 during the quarters ended March 31, 2022 and 2021, respectively. Net cash used in investing activities was \$2,899 more in 2022 because of an increase in purchases of computers, furniture, and equipment.

During the quarters ended March 31, 2022 and 2021, we did not engage in any financing activities.

Off-Balance Sheet Financing Arrangements

As of March 31, 2022, 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 customers by offering bundled claims administration services with their own managed care services at a lower rate. We are also impacted by rising costs for certain inflation-sensitive operating expenses such as labor and employee benefits and facility leases. We believe that these impacts can be material to our revenues or net income. Some of our customers are public entities which contract with us at a fixed price for the term of the contract. Increases in labor and employee benefits can reduce our profit margin over the term of these contracts. See also “Effects of inflation” of Item 1A Risk Factor of our Annual Report on Form 10-K filed with the Commission on April 14, 2022.

Critical Accounting Policies and Estimates

Our consolidated financial statements are prepared in accordance with GAAP. Application of these principles requires us to make estimates, assumptions, and judgments that affect the amounts reported in our consolidated financial statements and accompanying notes. We continually evaluate our accounting policies, estimates, and judgments and base our estimates and judgments on historical experience and various other factors that we believe to be reasonable under the circumstances. Because of the inherent uncertainty in making estimates and judgments, actual results could differ from our estimates and judgments. We consider (i) revenue recognition, (ii) leases, (iii) allowance for uncollectible accounts, and (iv) income taxes to be the most critical accounting policies because they relate to accounting areas that require the most subjective or complex judgments by us, and, as such, could be most subject to revision as new information becomes available.

Revenue Recognition: We recognize revenue when control of the promised services is transferred to our customers in an amount that reflects the consideration we expect to be entitled to in exchange for those services. As we complete our performance obligations which are identified below, we have an unconditional right to consideration as outlined in our contracts with our customers. Generally, our accounts receivables are expected to be collected in 30 days in accordance with the underlying payment terms.

We offer multiple services under our managed care and network solutions service lines, which the customer may choose to purchase. These services are billed individually as separate components to our customers. Revenue is recognized as the work is performed in accordance with our customer contracts. Based upon the nature of our products, bundled managed care elements are generally delivered in the same accounting period. Advance payments from subscribers and billings made in advance are recorded on the balance sheet as unearned revenue.

Leases: We determine if an arrangement includes a lease at inception. Right-of-use 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. Right-of-use assets and lease liabilities are recognized at the commencement date of the lease, renewal date of the lease or significant remodeling of the lease space based on the present value of the remaining future minimum lease payments. Leases with a term greater than one year are recognized on the balance sheet as right-of-use assets and short-term and long-term lease liabilities, as applicable.

Operating lease liabilities and their corresponding right-of-use assets are initially recorded based on the present value of lease payments over the expected remaining lease term. The interest rate implicit in lease contracts is typically not readily determinable. As a result, we utilize our incremental borrowing rate to discount lease payments, which reflects the fixed rate at which we could borrow on a collateralized basis the amount of the lease payments in the same currency, for a similar term, in a similar economic environment. Our leases may include options to extend or terminate the lease which are included in the lease term when it is reasonably certain that we will exercise any such options. Lease expense for lease payments is recognized on a straight-line basis over the lease term.

Allowance for Uncollectible Accounts: We determine our allowance for uncollectible accounts by considering several factors, including the length of time trade accounts receivables are past due, our previous loss history, the customers' current ability to pay their obligations to us, and the condition of the general economy and the industry as a whole. We write off accounts receivables when they become uncollectible.

We must make significant judgments and estimates in determining contractual and bad debt allowances in any accounting period. One significant uncertainty inherent in our analysis is whether our experience will be indicative of future periods. Although we consider future projections when estimating contractual and bad debt allowances, we ultimately make our decisions based on the best information available to us at the time the decision is made. Adverse changes in general economic conditions or trends in reimbursement amounts for our services could affect our contractual and bad debt allowance estimates, collection of accounts receivables, cash flows, and results of operations. Two customers accounted for 10% or more of accounts receivable at March 31, 2022 and 2021, respectively.

Accounting for Income Taxes: We record a tax provision for the anticipated tax consequences of our reported results of operations. The provision for income taxes is computed using the asset and liability method, under which deferred tax assets and liabilities are recognized for the expected future tax consequences of temporary differences between the financial reporting and tax bases of assets and liabilities, and for operating losses and tax credit carryforwards. Deferred tax assets and liabilities are measured using the currently enacted tax rates that apply to taxable income in effect for the years in which those tax assets are expected to be realized or settled. We record a valuation allowance, if necessary, to reduce deferred tax assets to the amount that is believed more likely than not to be realized.

We recognize tax benefits from uncertain tax positions only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such positions are then measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement.

Management believes it is more likely than not that forecasted income, including income that may be generated as a result of certain tax planning strategies, together with future reversals of existing taxable temporary differences, will be sufficient to fully recover the deferred tax assets. In the event we determine all, or part of the net deferred tax assets are not realizable in the future, we will make an adjustment to the valuation allowance that would be charged to earnings in the period such determination is made. In addition, the calculation of tax liabilities involves significant judgment in estimating the impact of uncertainties in the application of GAAP and complex tax laws. Resolution of these uncertainties in a manner inconsistent with management's expectations could have a material impact on our financial condition and operating results. The significant assumptions and estimates described above are important contributors to our ultimate effective tax rate in each year.

Item 3. Quantitative and Qualitative Disclosure about Market Risk

Smaller reporting companies are not required to provide this information.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

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

Our management, 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 quarterly report on Form 10-Q. Based on the evaluation of our disclosure controls and procedures as of March 31, 2022, the end of the period covered by this report, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective at a reasonable assurance level.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the quarter ended March 31, 2022, that materially affected or are reasonably likely to materially affect, our internal control over financial reporting.

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

Management does not believe there have been any material changes to the risk factors listed in Part I, Item 1A, Risk Factors in our Annual Report on Form 10-K for the fiscal year ended December 31, 2021 and filed with the Commission on April 14, 2022. These risk factors should be carefully considered with the information provided elsewhere in this report, which could materially adversely affect our business, financial condition, or results of operations.

Item 6. Exhibits

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

Exhibit Number	Title of Document
Exhibit 31.1	Certification of Principal Executive Officer pursuant to Rule 13a-14(a) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
Exhibit 31.2	Certification of Principal Financial Officer pursuant to Rule 13a-14(a) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
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
Exhibit 101	The following materials from Pacific Health Care Organization, Inc.'s Quarterly Report on Form 10-Q for the period ended March 31, 2022, formatted in Inline XBRL (eXtensible Business Reporting Language): (i) the Unaudited Condensed Consolidated Balance Sheets, (ii) the Unaudited Condensed Consolidated Statements of Operations, (iii) the Unaudited Condensed Consolidated Statements of Cash Flows, and (iv) Notes to the Unaudited Condensed Consolidated Financial Statements.
Exhibit 104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

SIGNATURES

Pursuant to the requirements 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:	May 16, 2022	<u>/s/ Tom Kubota</u> Tom Kubota Chief Executive Officer
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Date:	May 16, 2022	<u>/s/ Kristina Kubota</u> Kristina Kubota Chief Financial Officer
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EXHIBIT 31.1

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

I, Tom Kubota, certify that:

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

Date: May 16, 2022

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, Kristina Kubota, certify that:

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

Date: May 16, 2022

By: /s/ Kristina Kubota
Kristina Kubota
Chief Financial Officer

EXHIBIT 32.1

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

In connection with the quarterly report on Form 10-Q of Pacific Health Care Organization, Inc. (the "Company") for the period ended March 31, 2022, as filed with the Securities and Exchange Commission (the "Report"), the undersigned hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of their 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: May 16, 2022

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

Date: May 16, 2022

By: /s/ Kristina Kubota
Kristina Kubota
Chief Financial Officer

This certification is not deemed filed with the Securities and Exchange Commission and is not incorporated by reference into any filing of the Company 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.