

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 June 30, 2025

or

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

For the transition period from _____ to _____

Commission File Number **000-50009**

PACIFIC HEALTH CARE ORGANIZATION, INC.

(Exact name of registrant as specified in its charter)

Utah

(State or other jurisdiction of incorporation or organization)

87-0285238

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

19800 MacArthur Boulevard, Suites 306 & 307

Irvine, California

(Address of principal executive offices)

92612

(Zip Code)

(949) 721-8272

(Registrant's telephone number, including area code)

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

Title of each class	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	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input checked="" type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

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 July 31, 2025, 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. Condensed Consolidated Financial Statements

Pacific Health Care Organization, Inc. and Subsidiaries Condensed Consolidated Balance Sheets

	(Unaudited) June 30, 2025	December 31, 2024
ASSETS		
<i>Current Assets</i>		
Cash and cash equivalents	\$ 2,155,848	\$ 2,070,476
Investments	9,730,739	9,033,761
Accounts receivable, net	1,092,048	1,028,920
Prepaid expenses	240,554	202,117
Total current assets	13,219,189	12,335,274
<i>Long-term Assets</i>		
Property and equipment, net	47,681	52,429
Deferred tax assets	40,557	37,990
Other assets	7,492	7,110
Total long-term assets	95,730	97,529
Total Assets	\$ 13,314,919	\$ 12,432,803
LIABILITIES AND STOCKHOLDERS' EQUITY		
<i>Current Liabilities</i>		
Accounts payable	\$ 148,340	\$ 148,051
Accrued expenses	340,347	422,973
Income tax payable	129,373	68,727
Dividends payable	36,375	37,000
Insurance Financing	-	35,305
Unearned revenue	43,711	33,544
Total current liabilities	698,146	745,600
<i>Commitments and Contingencies</i>		
<i>Stockholders' Equity</i>		
Convertible preferred stock, \$0.001 par value, 5,000,000 shares authorized of which 40,000 shares designated as Series A preferred and 16,000 shares issued and outstanding at June 30, 2025 and December 31, 2024	16	16
Common stock, \$0.001 par value, 800,000,000 shares authorized, 12,800,000 shares issued and outstanding at June 30, 2025 and December 31, 2024	12,800	12,800
Additional paid-in capital	416,057	416,057
Retained earnings	12,187,900	11,258,330
Total stockholders' equity	12,616,773	11,687,203
Total Liabilities and Stockholders' Equity	\$ 13,314,919	\$ 12,432,803

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

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

	For three months ended June 30,		For six months ended June 30,	
	2025	2024	2025	2024
Revenues				
HCO	\$ 320,387	\$ 398,906	\$ 814,516	\$ 686,201
MPN	170,215	144,598	329,220	292,579
Medical bill review	84,332	100,683	212,909	200,671
Utilization review	531,335	487,989	1,026,377	986,643
Medical case management	617,572	369,689	1,133,883	704,855
Other	2,700	39,222	28,450	67,968
Total revenues	<u>1,726,541</u>	<u>1,541,087</u>	<u>3,545,355</u>	<u>2,938,917</u>
Expenses				
Salaries and wages	721,155	658,674	1,445,570	1,330,730
Professional fees	142,710	174,578	377,840	321,468
Insurance	89,685	78,648	172,293	158,105
Outsource service fees	179,590	179,300	353,140	347,505
Data maintenance	62,067	55,771	198,182	66,502
General and administrative	227,775	202,121	380,352	347,419
Total expenses	<u>1,422,982</u>	<u>1,349,092</u>	<u>2,927,377</u>	<u>2,571,729</u>
Income from operations	303,559	191,995	617,978	367,188
Other income (expense)				
Other income (Note 15)	419,801	-	419,801	-
Interest income	172,315	107,004	266,059	206,249
Interest expense	-	-	(1,522)	-
Total other income, net	<u>592,116</u>	<u>107,004</u>	<u>684,338</u>	<u>206,249</u>
Income before taxes	895,675	298,999	1,302,316	573,437
Income tax provision	<u>258,768</u>	<u>83,443</u>	<u>372,746</u>	<u>160,478</u>
Net income	<u>\$ 636,907</u>	<u>\$ 215,556</u>	<u>\$ 929,570</u>	<u>\$ 412,959</u>
Basic earnings per share:				
Net Income per share amount	\$ 0.05	\$ 0.02	\$ 0.07	\$ 0.03
Weighted average shares outstanding, basic	12,800,000	12,800,000	12,800,000	12,800,000
Fully diluted earnings per share:				
Net Income per share amount	\$ 0.05	\$ 0.02	\$ 0.07	\$ 0.03
Weighted average shares outstanding, diluted	12,816,000	12,816,000	12,816,000	12,816,000

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

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

	Convertible Preferred Stock		Common Stock		Additional Paid in Capital	Retained Earnings	Total Stockholders' Equity
	Shares	Amount	Shares	Amount			
Balance December 31, 2023	16,000	\$ 16	12,800,000	\$ 12,800	\$ 416,057	\$10,374,746	\$ 10,803,619
Net income	-	-	-	-	-	197,403	197,403
Balance March 31, 2024	16,000	\$ 16	12,800,000	\$ 12,800	\$ 416,057	\$10,572,149	\$ 11,001,022
Net income	-	-	-	-	-	215,556	215,556
Balance June 30, 2024	16,000	\$ 16	12,800,000	\$ 12,800	\$ 416,057	\$10,787,705	\$ 11,216,578
Balance December 31, 2024	16,000	\$ 16	12,800,000	\$ 12,800	\$ 416,057	\$11,258,330	\$ 11,687,203
Net income	-	-	-	-	-	292,663	292,663
Balance March 31, 2025	16,000	\$ 16	12,800,000	\$ 12,800	\$ 416,057	\$11,550,993	\$ 11,979,866
Net income	-	-	-	-	-	636,907	636,907
Balance June 30, 2025	16,000	\$ 16	12,800,000	\$ 12,800	\$ 416,057	\$12,187,900	\$ 12,616,773

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

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

	Sixth Months Ended June 30,	
	2025	2024
Cash flows from Operating Activities		
Net income	\$ 929,570	\$ 412,959
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	13,258	18,541
Provision for credit losses	(1,759)	(19,870)
Noncash interest on investments	(40,952)	(30,000)
Deferred taxes	(2,567)	(13,190)
Changes in operating assets and liabilities		
Accounts receivable	(61,369)	99,137
Other assets	(382)	-
Prepaid expenses	(38,437)	(73,181)
Accounts payable	289	3,344
Accrued expenses	(82,626)	56,709
Income tax payable	60,646	(323,593)
Unearned revenue	10,167	12,792
Net cash provided by operating activities	\$ 785,838	143,648
Cash flows from Investing Activities		
Proceeds from investments	9,033,761	7,877,752
Purchase of investments	(9,689,787)	(8,053,936)
Purchase of property and office equipment	(8,510)	(5,779)
Net cash used in investing activities	(664,536)	(181,963)
Cash flows from Financing Activities		
Payment of cash dividends	(625)	-
Cash received from insurance financing agreement	-	139,791
Payments made on insurance financing agreement	(35,305)	(33,876)
Net cash provided by (used in) financing activities	\$ (35,930)	105,915
Net increase in cash	85,372	67,600
Cash and cash equivalents at beginning of period	2,070,476	2,493,979
Cash and cash equivalents at end of period	\$ 2,155,848	\$ 2,561,579
Supplemental Cash Flow Information		
Cash paid for:		
Interest	\$ 1,522	\$ -
Income taxes	319,000	498,000

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
(Unaudited)

NOTE 1 – BASIS OF FINANCIAL STATEMENT PRESENTATION AND NATURE OF BUSINESS

The accompanying unaudited condensed consolidated financial statements of Pacific Health Care Organization, Inc. (the “Company” or “PHCO”) have been prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) for interim financial information and Article 10 of Securities and Exchange Commission (the “SEC”) Regulation S-X. Certain information and footnote disclosures normally included in consolidated financial statements have been condensed or omitted in accordance with SEC rules and regulations. The information furnished in these unaudited condensed consolidated financial statements includes normal recurring adjustments and reflects all adjustments, which, in the opinion of management, are necessary for a fair presentation of such financial statements.

While management believes the disclosures and information presented are adequate to make the information not misleading, the accompanying unaudited condensed consolidated financial statements should be read in conjunction with the Company’s audited financial statements and notes thereto included in its annual report on Form 10-K for the year ended December 31, 2024. Operating results for the three and six months ended June 30, 2025, are not necessarily indicative of the results to be expected for the year ending December 31, 2025.

PHCO is a workers’ compensation cost containment 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, 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 (“HCO”) and Medical Provider Networks (“MPN”) in the state of California, and providing workers’ compensation carve-out and Medicare set-aside services. In March 2011, the Company incorporated MMC, a Nevada corporation, as a wholly owned subsidiary of the Company. MMC oversees and manages the Company’s utilization review and bill review services. In February 2012, the Company incorporated MMM, a Nevada corporation, as a wholly owned subsidiary of the Company. MMM is responsible for overseeing and managing medical case management. The Company discontinued lien representation services in the third quarter of 2023 due to the lack of demand.

On October 19, 2021, the Company completed short-form mergers between PHCO and each of its wholly owned subsidiaries Industrial Resolutions Coalition (“IRC”), Medex Legal Support, Inc. (“MLS”), and Pacific Medical Holding Company (“PMHC”). As a result of the short-form mergers the separate existence of IRC, MLS and PMHC terminated and the business, assets and liabilities of those entities have been transferred to PHCO and, as appropriate, to its other subsidiaries. The Company continues to offer the services of IRC and MLS through its other subsidiaries as described in the preceding paragraph.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES

A. 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.

B. 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 these unaudited condensed consolidated financial statements and accompanying notes. Actual results could differ from those estimates. Significant estimates include the values assigned to the allowance for credit losses and accruals for income taxes.

C. Reclassifications

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

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

D. Revenue Recognition

The Company recognizes revenue in accordance with ASU 2014-09, "Revenue from Contracts with Customers (Topic 606)." The core principle underlying Topic 606 is that the Company recognizes 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 requires 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 agreed upon sales price in accordance with our customers' contracts. Contracts are typically written for an initial annual period with automatic renewals on an annual or monthly basis, cancellable with 30 to 90 days' notice, except as required by law for our HCO and MPN services, which require up to 180 days' notice in some cases. When performing services for a public entity customer, the Company may be required to agree to the contract terms of the customer which are typically aligned with specific laws and regulations governing the customer.

The Company's customers are typically large, well-established businesses with a significant workforce. The Company determines whether it is probable to collect substantially all of the consideration for services based on the creditworthiness of the customers at the time of commencing services.

The Company offers multiple services under its workers' compensation cost containment specialty service lines. The Company typically provides a menu of offerings from which the customer may choose to purchase as bundled managed care, standalone services, or add-on ancillary services. The price of each service is separate and distinct and provides a separate and distinct value to the customer. Pricing is generally consistent for each service irrespective of the other services or quantities requested by the customer. Bundled managed care contracts are therefore accounted for as separate performance obligations. Customers are typically invoiced monthly in arrears or annually in advance, depending on the service provided and the customer's preferences, and payment is due within 30 days. In cases where a customer is invoiced annually prior to services being rendered or remits payment in advance, typically for our HCO/MPN services, the Company records the cash collected as unearned revenue and recognizes the revenue over the contract term as services are rendered.

Contracts with customers often include promises to transfer multiple products and services to a customer, referred to as distinct performance obligations. Determining whether products and services are considered distinct performance obligations that should be accounted for separately versus together may require significant judgment.

The Company allocates revenue to each performance obligation based on its stand-alone selling price (SSP). Judgment is required to determine unobservable SSP for each distinct performance obligation as most services provided by the Company are not directly observable. In instances where SSP is not directly observable, such as when we do not sell the product or service separately, we determine the SSP using information that may include market conditions and other observable inputs. We typically have more than one SSP for individual products and services due to the stratification of those products and services by customers and circumstances. In these instances, we determine SSP using a cost-plus margin approach. Discounts and other concessions are rarely awarded, and returns and refunds are not part of the normal course of business.

As of January 1, 2024, the balance of accounts receivable, net and unearned revenue was \$1,020,580 and \$30,919, respectively.

The Company recognizes revenue as described below for each type of service.

HCO/MPN

An HCO is a network of health care providers specializing in the treatment of workplace injuries and in back-to-work rehabilitation for our customers' injured employees. HCOs provide injured employees with a network of health care providers in the event of a workers' compensation injury, while providing their employer (our customer) control over medical treatment and costs. Like an HCO, an MPN is a network of health care providers, but health care providers participating in MPNs are not required to have the same level of medical expertise in treating workplace injuries. As a licensed HCO and approved MPN, in addition to offering HCO and MPN programs, we are also able to offer our customers a combination of the HCO and MPN programs.

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

The Company derives its HCO and MPN revenue from fees charged for various aspects of these programs. Monthly and annual HCO/MPN program administration is provided over time and invoiced monthly or annually for a fixed fee, with revenue recognized ratably over the applicable contractual term. HCO/MPN claim network fees are generated at specific points in time throughout the month and invoiced at the end of the month for an agreed upon per item fee. Monthly HCO/MPN custom network fees are provided over time and invoiced monthly for a fixed fee. Revenue is recognized ratably over time. Annual or one-time HCO notification letters are generated and mailed at a point in time during the year, at which time the customer is invoiced for the service for a fixed fee.

For the six months ended June 30, 2025 and 2024, the Company's HCO programs generated approximately \$304,567 and \$301,168, respectively, from services performed over time and approximately \$509,949 and \$385,033, respectively, from services performed at a point in time.

For the six months ended June 30, 2025 and 2024, the Company's MPN programs generated approximately \$255,640 and \$234,754, respectively, from services performed over time and approximately \$73,580 and \$57,825, respectively, from services performed at a point in time.

Medical Bill Review

Medical bills are one of the biggest expenses that an employer's workers' compensation insurance company must pay for. To curtail these expenses, our customers utilize our medical bill review services to review medical bills for services rendered to an injured employee. We provide professional analysis of medical provider services and equipment billing to ascertain proper reimbursement.

The Company derives its medical bill review revenue from fees generated and delivered at a point in time and invoiced upon completion of the services. These services are invoiced at a fixed fee with certain items also invoiced for a percentage of savings produced for the customer.

Utilization Review

Utilization review, also known as utilization management, is required by law in all states for workers' compensation claims. Utilization review evaluates the medical necessity of proposed treatment by comparing medical treatment requests against accepted medical guidelines. Its purpose is to serve as a safeguard against payor liability for medical costs that are not medically appropriate or approved by the relevant medical and legal authorities.

The Company derives its utilization review revenue from fees generated and delivered at a point in time and invoiced upon completion of the services. These services are invoiced at a fixed fee with certain items also invoiced for a percentage of savings produced for the customer.

Medical Case Management

Medical case management oversees injured employees' medical treatment to ensure that it progresses to a resolution and ensures treatment plans are aligned from a medical perspective. Medical case management is a collaborative process that assesses, evaluates, coordinates, implements and monitors medical treatment plans and the options and services required for occupational injuries.

The Company derives its medical case management revenue from services performed and delivered over time and invoiced monthly for those services at a fixed hourly rate. The types of services offered include both telephonic and field case management as well as employee advocate services.

Other Revenues

Other revenues consist of services performed for Medicare set aside requests, network access fees charged for network access for preferred provider organizations, ancillary legal support services, and workers' compensation carve-out services. Medicare set-aside services for workers' compensation claims 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 not be covered by Medicare. Network access for preferred provider organizations gives customers access to provider groups that include a specialized network of medical providers related to workers' compensation and the lower fees associated with the Company's affiliation to those groups.

These services are performed at a point in time and invoiced upon completion of the service. Medicare set-aside requests are invoiced at a fixed fee or hourly rate, depending on the request type. Network access fees are invoiced at a percentage of savings produced for the customer. Ancillary legal services are invoiced at a fixed fee or hourly rate, depending on the service performed. Workers' compensation carve-out services are invoiced at a fixed fee or hourly rate, depending on the service performed.

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

E. Cash and Cash Equivalents

The Company considers all short-term, highly liquid investments that are readily convertible, within three months of origination, to known amounts as cash equivalents. As of June 30, 2025 and December 31, 2024, the Company had no cash equivalents.

F. Investments

The Company maintains its investments in US treasury bills and has classified them as held-to-maturity at the time of purchase. Held-to-maturity purchases are those securities in which the Company has the ability and intent to hold until maturity. Held-to-maturity securities are recorded at amortized cost, adjusted for the amortization or accretion of premiums and discounts. Premiums and discounts are amortized or accreted over the life of the related held-to-maturity security using a straight-line method.

The amortized cost basis, gross unrealized gains and losses, and fair value of the Company's held-to-maturity securities at June 30, 2025 and December 31, 2024 are shown below.

	Held-to-maturity securities			
	Amortized Cost Basis	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
June 30, 2025				
U.S. Treasury Bills	\$ 9,730,739	\$ 3,464	\$ -	\$ 9,734,203
Totals	<u>\$ 9,730,739</u>	<u>\$ 3,464</u>	<u>\$ -</u>	<u>\$ 9,734,203</u>
December 31, 2024				
U.S. Treasury Bills	\$ 9,033,761	\$ 7,743	\$ -	\$ 9,041,504
Totals	<u>\$ 9,033,761</u>	<u>\$ 7,743</u>	<u>\$ -</u>	<u>\$ 9,041,504</u>

The amortized cost basis and fair value of the Company's securities at June 30, 2025, by contractual maturity, are shown below.

	Amortized Cost	Fair Value
June 30, 2025		
Held-to-maturity securities		
Due in one year or less	\$ 9,730,739	\$ 9,734,203
	<u>\$ 9,730,739</u>	<u>\$ 9,734,203</u>

The fair value of the Company's held-to-maturity debt securities are determined based upon inputs, other than the quoted prices in active markets, that are observable either directly or indirectly and are classified as level 2 fair value investments.

G. 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 assets and 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.

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

H. Accounts Receivable and Allowance for Credit

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 credit losses. The Company ages its receivables by date of invoice. Management reviews the allowance for credit loss quarterly and evaluates the balance of accounts receivable based on historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. When a specific account is deemed uncollectible, the Company charges off the receivable against the allowance for credit loss. 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 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 credit losses 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, and past-due amounts. At June 30, 2025 and December 31, 2024, the Company had an allowance for credit losses of \$10,749 and \$12,489, respectively.

A roll-forward of the Company's allowance for credit losses for the six-month periods ended is as follows:

	June 30, 2025	June 30, 2024
Allowance for credit losses, beginning of period	\$ 12,489	\$ 32,814
Current period provision	(1,759)	(19,870)
Write-off	-	-
Recovery	19	-
Allowance for credit losses, end of period	<u>\$ 10,749</u>	<u>\$ 12,944</u>

I. Concentrations of Risk

Cash and Cash Equivalents

Financial instruments that potentially subject the Company to concentrations of credit risks are comprised of cash deposits in excess of federally insured limits. The Company places its cash and cash equivalents at one well-known, quality financial institution. At times, such cash and investments may be in excess of the \$250,000 FDIC insurance limit. The Company believes it is not exposed to any significant credit risk on its cash and cash equivalents.

Major Customers

During the six months ended June 30, 2025, two major customers who represent 10% or more of operating revenue accounted for approximately 33% of our total sales, whereas during the six months ended June 30, 2024, three major customers who represent 10% or more of operating revenue accounted for approximately 45% of our total sales. Below are the respective percentages of total operating revenue that each of these customers represented during the six months ended June 30, 2025 and 2024:

	June 30, 2025	June 30, 2024
Customer A	23%	23%
Customer B	10%	11%
Customer C	-%	11%

During the three months ended June 30, 2025, two major customers who represent 10% or more of operating revenue accounted for approximately 37% of our total sales, whereas during the three months ended June 30, 2024, three major customers who represent 10% or more of operating revenue accounted for approximately 47% of our total sales. Below are the respective percentages of total operating revenue that each of these customers represented during the three months ended June 30, 2025 and 2024:

	June 30, 2025	June 30, 2024
Customer A	27%	25%
Customer B	10%	11%
Customer C	-%	11%

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The percentages of the amounts due from major customers who represent 10% or more of total accounts receivable as of June 30, 2025 and December 31, 2024, are as follows:

	June 30, 2025	December 31, 2024
Customer A	22%	20%
Customer B	15%	15%
Customer C	15%	10%
Customer D	14%	-%

J. Leases

On April 1, 2022, the Company moved office locations from 1201 Dove Street, Suite 300 in Newport Beach, California to 19800 MacArthur Boulevard, Suites 306 and 307, in Irvine, California. Our current lease was set to expire as of March 31, 2025, but was renewed on December 10, 2024 for an additional 12-month lease, with a new expiration of March 31, 2026 with no extension options.

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 all leases. As of June 30, 2025 and December 31, 2024, there were no operating lease right-of-use assets or liabilities. The Company elected to not apply the requirements of ASC 842 for short-term leases. Short-term leases are defined as leases that, at the commencement date, have a lease term of 12 months or less. 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 June 30, 2025 and December 31, 2024.

K. 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.

L. General and Administrative Expenses

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

M. Income Taxes

The Company accounts for income taxes by following the asset and liability approach to accounting for income taxes. Deferred tax assets and liabilities represent the future tax consequences of the differences between the financial statement carrying amounts of assets and liabilities versus the tax basis of assets and liabilities. Under this method, deferred tax assets are recognized for deductible temporary differences, operating loss, and tax credit carry forwards. Deferred tax liabilities are recognized for taxable temporary differences. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. The impact of the tax rate changes on deferred tax assets and liabilities is recognized in the year that the change is enacted. Management believes that any write-off not allowed will not have a material impact on the Company's financial position.

The Company is subject to taxation in United States federal and state jurisdictions. Based on its evaluation, the Company believes that it has no significant unrecognized tax positions. The Company does not believe there will be any material changes in its unrecognized tax positions over the next 12 months. The years 2021, 2022, 2023, and 2024 are still open for examination. The Company is not currently under audit by the Internal Revenue Service or any other tax authority.

The Company may from time to time be assessed interest or penalties by major tax jurisdictions, although any such assessments historically have been minimal and immaterial to its financial results. In accordance with current guidance, the Company classifies interest and penalties as income tax expense as incurred.

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N. Share Based Compensation

The Company follows the fair value method of accounting for stock-based employee and non-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 these unaudited condensed consolidated statements of operations as compensation expense over the requisite service (vesting) period, based on the award’s fair value at grant date. No awards or grants have been awarded or granted under the Company’s current equity incentive plan. See “Note 10 – EQUITY INCENTIVE AWARDS” of this Part I, Item 1 *Notes to Condensed Consolidated Financial Statements (Unaudited)* for more information about the Company’s current equity incentive plan.

NOTE 3 – RECENTLY ISSUED AND ADOPTED ACCOUNTING STANDARDS

Recently Adopted Accounting Guidance

On January 1, 2024, the Company retroactively adopted Accounting Standards Update (“ASU”) 2023-07: Improvements to Reportable Segment Disclosures. This ASU, which amends Topic 280: *Segment Reporting*, improves disclosure requirements for reportable segments and enhances disclosures for companies with single reportable segments. The adoption did not have a material impact on the Company’s financial statements.

The Company conducts its business activities and reports financial results as a single reportable segment, the workers’ compensation cost containment specialists segment, based on the nature of its business and accounting policies. The Chief Operating Decision Maker (“CODM”) is its executive team. The CODM makes decisions about allocating resources and assessing performance in a manner consistent with the way the Company operates its business and presents its financial results, using the same net income that is also reported on the consolidated statements of operations as net income. There are no reconciling items to the consolidated statements of operations. The measurement of segment assets is reported on the consolidated balance sheet as total assets. The CODM uses net income to evaluate income generated from segment assets (return on assets) in deciding whether to reinvest profits into the workers’ compensation cost containment specialists segment or into other parts of the entity. All of the Company’s customers are based in the United States.

Recently Issued Accounting Guidance

In December 2023, the FASB issued ASU 2023-09, “Improvements to Income Tax Disclosures.” This ASU, which amends Topic 740: *Income Taxes*, enhances transparency by updating disclosure requirements for income taxes. The standard is effective for annual periods beginning after December 15, 2025. Early adoption is permitted in any annual period in which financial statements have not yet been issued (or made available for issuance).

The Company plans to adopt this standard on January 1, 2026, using the retrospective method of adoption. Based on the Company’s preliminary assessment, the adoption of ASU 2023-09 is not expected to have a material effect on the Company’s consolidated financial statements or related disclosures.

NOTE 4 – PROPERTY AND EQUIPMENT

Scheduled below are the assets, costs, and accumulated depreciation at June 30, 2025 and December 31, 2024.

	June 30, 2025	December 31, 2024
Computer equipment	\$ 253,029	\$ 244,519
Furniture and fixtures	13,284	13,284
Totals	\$ 266,313	\$ 257,803
Less: accumulated depreciation	(218,632)	(205,374)
Total Property and Equipment, net	<u>\$ 47,681</u>	<u>\$ 52,429</u>

Depreciation expense for the six months ended June 30, 2025 and 2024, totaled \$13,258 and \$18,541, respectively.

NOTE 5 – LEASES

The Company rents office space at 19800 MacArthur Boulevard, Suites 306 & 307, in Irvine, California. This lease was to expire as of March 31, 2025, but was renewed on December 10, 2024, for an additional 12 months, with a new expiration of March 31, 2026. The lease provides 320 square feet of office space for the executive team and a shared office space for key employees to use as needed. All other employees will continue to work remotely.

Lease expenses were \$24,849 and \$22,803 during the six-month periods ended June 30, 2025 and 2024, respectively.

Pacific Health Care Organization, Inc.
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NOTE 6 – ACCRUED EXPENSES

As of June 30, 2025 and December 31, 2024, accrued expenses consisted of the following:

	June 30, 2025	December 31, 2024
Salaries and wages	\$ 125,968	\$ 130,960
Compensated absences	180,436	193,525
Legal fees	-	2,964
Accounting fees	1,100	64,183
Sales commissions	32,511	19,558
Other	332	11,783
Total	<u>\$ 340,347</u>	<u>\$ 422,973</u>

NOTE 7 – INSURANCE FINANCING AGREEMENT

The Company entered into an insurance policy finance arrangement for business insurance coverage effective May 2024. The agreement matured in March 2025 and had monthly payments of principal and interest of approximately \$12,276 with interest at 9.3%.

NOTE 8 – INCOME TAXES

For the three months ended June 30, 2025, the Company recognized expense from income taxes of \$258,768. For the six months ended June 30, 2025, the Company recognized expense from income taxes of \$372,746, representing an effective tax rate of 28.9%. The Company's effective tax rate will generally differ from the U.S. Federal statutory rate of 21.0% due to state taxes, permanent items, and discrete items. For the three months ended June 30, 2024, the Company recognized expense from income taxes of \$83,443. For the six months ended June 30, 2024, the Company recognized expense from income taxes of \$160,478.

On July 4, 2025, President Trump signed the One Big Beautiful Bill Act, which includes a broad range of tax reform provisions affecting businesses, including extending and modifying certain key Tax Cuts & Jobs Act provisions, expanding certain Inflation Reduction Act incentives while accelerating the phase-out of others, and modifying the endowment excise tax for higher education institutions. The Company is currently evaluating the impact of this new bill but does not believe it will have a material impact.

NOTE 9 – BENEFITS AND OTHER COMPENSATION

The Company offers a 401(k)-profit sharing plan for employees who meet the eligibility requirements. Pursuant to the plan, the Company 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 prospective costs of such awards to the Company 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.

NOTE 10 – EQUITY INCENTIVE AWARDS2018 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 (adjusted to reflect the four-shares-for-one-share forward split of the Company's common stock that took effect on January 6, 2020). 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 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 Plan's Effective Date. The 2018 Plan is currently administered by the full board of directors.

Pacific Health Care Organization, Inc.
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NOTE 11 – STOCKHOLDERS’ EQUITY

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 convertible 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.

The Company has two classes of stock. The Company had 800,000,000 shares of voting common stock authorized, and 12,800,000 shares issued and outstanding at both June 30, 2025 and 2024. The Articles of Incorporation of the Company, as amended, also authorizes 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 convertible 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 convertible preferred stock. The Series A convertible preferred stock has a par value of \$0.001 and consists of 40,000 shares, and may be converted into common stock on a one-share for one-share basis at the election of the holder thereof. The holders of Series A convertible 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 convertible 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 convertible preferred stock shall rank in parity with the Company’s common stock. Holders of Series A convertible preferred stock are entitled to receive dividends, when, as and if declared by the board of directors. The Series A convertible preferred stock shall rank in parity with the Company’s common stock as to any dividends. As of June 30, 2025 and 2024, 16,000 shares of the Series A convertible preferred stock were outstanding.

The Company purchased no shares of treasury stock during the six-month periods ended June 30, 2025 and 2024. The Company does not have a plan to repurchase outstanding shares of common stock.

As of June 30, 2025 and December 31, 2024, the Company had dividends payable of \$36,375 and \$37,000, respectively, from a dividend declared in September 2015. Between December 31, 2024, and June 30, 2025 one shareholder was paid \$625 of the unpaid September 2015 dividend.

NOTE 12 – EARNINGS PER SHARE OF COMMON STOCK

The computation of earnings per share of common stock is based on the weighted average number of shares outstanding at the date of these unaudited condensed consolidated financial statements. The fully diluted earnings per share includes 16,000 shares of Series A convertible preferred stock, as disclosed in Note 11.

Basic and Diluted Net Income per share calculation	For the Three months Ended June 30,		For the Six months Ended June 30,	
	2025	2024	2025	2024
Net Income to common stockholders	\$ 636,907	\$ 215,556	\$ 929,570	\$ 412,959
Weighted average shares outstanding, basic	12,800,000	12,800,000	12,800,000	12,800,000
Basic Net Income per share	\$ 0.05	\$ 0.02	\$ 0.07	\$ 0.03
Weighted average shares outstanding, diluted	12,816,000	12,816,000	12,816,000	12,816,000
Diluted Net Income per share	\$ 0.05	\$ 0.02	\$ 0.07	\$ 0.03

For the three and six months ended June 30, 2025 and 2024, there were common stock equivalents related to convertible preferred stock that had a dilutive effect of 16,000 shares.

NOTE 13 – COMMITMENTS AND CONTINGENCIES

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 associate of any of them is a party adverse to or has a material interest adverse to the Company or any of its subsidiaries.

Pacific Health Care Organization, Inc.
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NOTE 14 – RELATED PARTY TRANSACTIONS

The Company defines a related party as an individual who has the ability to exercise significant influence over the Company's management or operations, including individuals who own 5% or more of outstanding common stock or preferred stock of the Company and individuals who perform consulting activities for the Company and are, or are related to, an individual who owns 5% or more of outstanding common stock or preferred stock of the Company.

The Company retains Donald P. Balzano, who is a shareholder owning 6.9% of the Company's common stock, as legal counsel. Mr. Balzano provides legal guidance and expertise in the workers' compensation industry on behalf of the Company. The fees paid to Mr. Balzano are recorded in Professional Fees on the unaudited condensed consolidated statement of operations. The retainer agreement with Mr. Balzano has been in place for approximately 24 years. For the six months ended June 30, 2025 and 2024, Mr. Balzano earned \$72,072 and \$72,072, respectively, related to the retainer agreement.

The Company's former CFO, Kat Kubota, provides financial consulting services for the Company. Kat Kubota is the daughter of Tom Kubota, the Company's CEO, President, Chairman of the board and majority shareholder, and sister of Lauren Kubota, the Company's Secretary and a board member. The fees paid to Ms. Kubota are recorded in Professional Fees in the unaudited condensed consolidated income statement. This consulting arrangement commenced upon Ms. Kubota's resignation from the CFO position with the Company on March 5, 2024. As of December 31, 2024, the amount due to Ms. Kubota of \$64,183 was included in accrued expenses, and for the six months ended June 30, 2025 and 2024, Ms. Kubota earned \$377 and \$61,080, respectively, for such services.

NOTE 15 – EMPLOYEE RETENTION CREDIT

The employee retention credit ("ERC"), as originally enacted through the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") on March 27, 2020, is a refundable credit against certain employment taxes equal to 50% of the qualified wages an eligible employer paid to employees from March 17, 2020 to December 31, 2020. The Disaster Tax Relief Act, enacted on December 27, 2020, extended the ERC for qualified wages paid from January 1, 2021 to June 30, 2021, and the credit was increased to 70% of qualified wages an eligible employer paid to employees during the extended period. The American Rescue Plan Act of 2021, enacted on March 11, 2021, further extended the ERC through December 31, 2021. Employers are eligible for the credit if they experienced full or partial suspension or modification of operations during any calendar quarter because of governmental orders due to the pandemic or a significant decline in gross receipts based on a comparison of quarterly revenue results for 2020 and/or 2021 with the comparable quarter in 2019.

In 2023, the Company applied for the ERC through external tax consultants after determining that the Company was eligible for the credit. The Company's ERC application was based on qualified wages paid to employees during periods in 2020 and 2021. The consulting arrangement was structured as a flat fee per employee for which the credit was applied, with payment terms providing that no fees were due until the credit was received from the Internal Revenue Service ("IRS"). Since there are no specific generally accepted accounting principles for for-profit business entities that receive government assistance that is not a loan, an income tax credit, or revenue from a contract with a customer, the Company has elected to apply International Accounting Standard (IAS) 20, "Accounting for Government Grants and Disclosure of Government Assistance," by analogy in accordance with ASC 105-10-05-3. Under IAS 20, government grants should be recognized when there is reasonable assurance that (1) the entity will comply with the conditions attached to the grant, and (2) the grant will be received. Given the unprecedented nature of the program, the Company determined that reasonable assurance was not achieved until the refund was actually received from the IRS.

During the second quarter of 2025, the Company received ERC refund checks from the IRS totaling \$488,655, which included interest in the amount of \$68,854. The Company has additional ERC applications pending with the IRS for eligible periods that could result in additional refunds of up to approximately \$202,657. The Company has not recognized any amounts related to these pending applications as the reasonable assurance criteria under IAS 20 have not been met. The Company will recognize any additional ERC refunds when received from the IRS and when reasonable assurance of compliance is achieved.

The Company has accounted for the \$419,801 ERC refund as other income in the second quarter of 2025 when the refund was received. This presentation aligns with IAS 20's principles for government grants that compensate for costs already incurred and expensed in prior periods. Interest income of \$68,854 related to the ERC refund has been recorded separately as interest income.

The Company's ERC eligibility remains subject to audit by the IRS for a period of five years from the date of filing. While the Company believes it has substantial support for its ERC claims and eligibility, there can be no assurance that the IRS will not challenge the Company's eligibility or calculations during any future audit process.

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

Throughout this Quarterly Report on Form 10-Q (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").

Our Management's Discussion and Analysis of Financial Condition and Results of Operations set forth below should be read in conjunction with our unaudited condensed consolidated financial statements, and notes thereto, contained in this quarterly report, as well as our audited consolidated financial statements, and notes thereto, contained in our Annual Report on Form 10-K for the year ended December 31, 2024, filed with the Securities and Exchange Commission (the "SEC") on March 19, 2025 (the "Annual Report").

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

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

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

For more detailed information about particular risk factors related to us and our business, see Part I, Item 1A *Risk Factors* of our Annual Report.

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

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

Overview

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

Business of the Company

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

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

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

Our core services focus on reducing medical treatment costs by enabling our customers to have control and oversight of the medical treatment of their injured employees to ensure treatment is timely and appropriate. This control is primarily obtained by participation in our HCOs or one of our MPNs. Through Medex, we hold two of three total licenses issued by the state of California to establish and manage HCOs within the state of California. We hold several government-issued licenses to operate medical provider networks. We also hold approvals issued by the state of California to function as an MPN and currently administer 21 MPNs. Our HCO and MPN programs provide our customers with provider networks within which the customer has some ability to direct the administration of the claim. This is designed to decrease the incidence of fraudulent claims and disability awards, and ensure injured employees receive necessary vocational rehabilitation and training. Our medical bill and utilization review services provide oversight of medical billing and treatment requests, and our medical case management and employee advocate services keep workers' compensation claims progressing to a resolution and assure treatment plans are aligned from a medical perspective.

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

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

Key trends affecting results of operations

During the second quarter of 2025, the Company received Employee Retention Credit ("ERC") refund checks from the IRS totaling \$488,655, recorded as other income of \$419,801 and interest income of \$68,854. This resulted in a material one-time increase to our net income and earnings per share. These funds will be taxable in the current year and have also impacted our provision for income taxes. The Company has additional ERC applications pending with the IRS for eligible periods that could result in additional refunds of approximately \$202,657. The Company's ERC eligibility remains subject to audit by the IRS for a period of five years from the date of filing. While the Company believes it has substantial support for its ERC claims and eligibility, there can be no assurance that the IRS will not challenge the Company's eligibility or calculations during any future audit process.

Our operating revenues typically correlate with general economic conditions and the size and activities of our customers' workforces. However, if economic conditions become challenging, including from the effects of inflationary pressures, elevated interest rates, and difficult labor market conditions, our customers may reduce their workforce or seek price-competitive alternatives to our services. This could result in a decline in the number of employees enrolled in our HCO and MPN programs and the volume of medical bills reviewed, which could materially affect related revenues.

Though we continue our efforts to increase our customer base and reduce customer concentration across all service lines, the addition or loss of a single customer can materially impact our results of operations. As disclosed previously, a significant customer terminated our services in the fourth quarter of 2024 and is in process of phasing out our services. Though we anticipate an impact on operating revenues from the loss of this customer during 2025, we also expect to mitigate the impact with increased business from other customers. We believe we will continue to be susceptible to risks associated with customer concentration and related potential material impacts on our results of operations in the foreseeable future.

The increase in our HCO revenue during the first six months of 2025 was due primarily to the timing of delivery of services to a significant customer that began phasing out our services during the fourth quarter of fiscal year 2024. Because we anticipate the customer's services will be completely phased out during 2025, we expect the timing-based fluctuations in revenue from this customer to phase out, as well. As such, during the second quarter of 2025, HCO revenue decreased due to the reduction of services performed, primarily related to the significant customer completing a phase out of services.

During the first six months of 2025, we saw an increase in MPN revenue related to growth in our customers' workforces and activity from new customers. During the first six months of 2025 we experienced an increase in medical bill review revenue due to increased review activity from new customers, when compared to the same period in 2024; however, during the second quarter of 2025, we had a decrease in medical bill review revenue due to a reduced number of requests for bill review, as compared to the same period in 2024.

The expansion of our employee advocate services to six states outside of California continues to bolster our medical case management revenues. During the first six months of 2025, we saw an increase in revenue from our employee advocate services of 91%, when compared to the same period of 2024, which drove a 28% increase in fiscal year 2025 medical case management revenue through June 30, 2025. We plan to continue to expand employee advocate services within the states we currently operate in when feasible during 2025 but cannot guarantee that we will be successful in further growing this service.

Total expenses during the first six months of 2025 increased, primarily due to increased salaries and wages for the addition of one employee, and increased data maintenance fees related to a large service at the beginning of 2025 for the customer who is completing a phase out of our services during fiscal year 2025.

Revenue

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

HCO

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

MPN

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

Medical bill review

Medical bill review involves analyzing medical provider services and equipment billing to ascertain proper reimbursement. 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. Our medical bill review services include coding review and re-bundling, confirming that the services are customary and reasonable, fee schedule compliance, out-of-network bill review, pharmacy review, and preferred provider organization repricing arrangements. Our medical bill review services can result in significant savings for our customers. Revenue for medical bill reviews is generated based on a set fee per medical bill reviewed and a percentage of savings of the preferred provider organization discounts. Hospital bill review services generate revenue on a percentage of savings off of the hospital bill, usually with a negotiated cap.

Utilization review

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

Medical case management

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

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

Other

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

The following table sets forth, for the below indicated periods ended June 30, 2025 and 2024, respectively, the percentage each revenue item identified in our unaudited condensed consolidated financial statements contributed to total revenues during the respective period.

	For three months ended June 30,		For six months ended June 30,	
	2025	2024	2025	2024
HCO	18%	26%	23%	23%
MPN	10%	9%	9%	10%
Medical bill review	5%	7%	6%	7%
Utilization review	31%	32%	29%	34%
Medical case management	36%	24%	32%	24%
Other	0%	2%	1%	2%

Expense

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 IT, financial, marketing, lobbying, in-house legal services related to the various services we offer, consulting, field medical case management, and board of directors' fees for board meetings, as well as legal, accounting, and other professional services fees.

Insurance

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

Outsource service fees

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

Data maintenance fees

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

General and administrative

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

The following table sets forth, for the below indicated periods ended June 30, 2025 and 2024, respectively, the percentage each expense item identified in our unaudited condensed consolidated financial statements contributed to total expenses during the respective period.

	For three months ended June 30,		For six months ended June 30,	
	2025	2024	2025	2024
Salaries and wages	51%	49%	49%	52%
Professional fees	10%	13%	13%	12%
Insurance	6%	6%	6%	6%
Outsource service fees	13%	13%	12%	14%
Data maintenance fees	4%	4%	7%	3%
General and administrative	16%	15%	13%	13%

Results of Operations

Comparison of the three months ended June 30, 2025 and 2024

The following represents selected components of our unaudited condensed consolidated results of operations for the three-month periods ended June 30, 2025 and 2024, respectively, together with changes from period-to-period:

	For three months ended June 30,		Amount	
	2025	2024	Change	% Change
Revenues				
HCO	\$ 320,387	\$ 398,906	\$ (78,519)	(20%)
MPN	170,215	144,598	25,617	18%
Medical bill review	84,332	100,683	(16,351)	(16%)
Utilization review	531,335	487,989	43,346	9%
Medical case management	617,572	369,689	247,883	67%
Other	2,700	39,222	(36,522)	(93%)
Total revenues	1,726,541	1,541,087	185,454	12%
Expenses				
Salaries and wages	721,155	658,674	62,481	9%
Professional fees	142,710	174,578	(31,868)	(18%)
Insurance	89,685	78,648	11,037	14%
Outsource service fees	179,590	179,300	290	-%
Data maintenance	62,067	55,771	6,296	11%
General and administrative	227,775	202,121	25,654	13%
Total expenses	1,422,982	1,349,092	73,890	5%
Income from operations	303,559	191,995	111,564	58%
Other income (expense)				
Other income	419,801	-	419,801	N/A
Interest income	172,315	107,004	65,311	61%
Total other income, net	592,116	107,004	485,112	453%
Income before taxes	895,675	298,999	596,676	200%
Income tax provision	258,768	83,443	175,325	210%
Net income	\$ 636,907	\$ 215,556	\$ 421,351	195%

Revenue

HCO

During the three-month period ended June 30, 2025, HCO revenue decreased 20% compared to the same period in the prior year. The decrease in HCO revenue was primarily attributable to the termination of services performed for the customer that is completing a phase out of our services during fiscal year 2025.

MPN

MPN revenue for the three-month period ended June 30, 2025, increased by 18% compared to the same period in the prior year. The increase in MPN revenue was largely due to an increase in monthly MPN program administration fees and custom network fees resulting from the addition of a new customer, and an increase in our existing customers' reported injuries.

Medical bill review

During the three-month period ended June 30, 2025, medical bill review revenue decreased by 16% compared to the same period in the prior year. The decrease was due to a net decrease in bill reviews performed for existing customers during the period.

Medical case management

During the three-month period ended June 30, 2025, medical case management revenue increased 67% compared to the same period in the prior year. The increase was attributable to an increase in managed claims by existing customers, an increase in employee advocate services revenue due to the continued growth of the program, an increase in billing rates for one of our customers, and increased accuracy and efficiency in our related billing processes.

Other

Other revenue for the three-month period ended June 30, 2025, decreased 93% compared to the same period in the prior year, primarily due to the discontinuance of network access fee-related services for the significant customer that is completing a phase out of our services during fiscal year 2025.

Expenses

Salaries and wages

During the three-month period ended June 30, 2025, salaries and wages increased 9% compared to the three months ended June 30, 2024. The increase was due primarily to the addition of one employee during fiscal year 2025. Given the current increased wage inflation trends, we expect salaries and wages will increase in future periods from our efforts to attract and retain employees.

Professional fees

During the three-month period ended June 30, 2025, professional fees decreased 18% compared to the three months ended June 30, 2024. The decrease in professional fees was primarily the result of decreases in accounting and legal services in the second quarter of fiscal year 2025 due to a reduced reliance on external expertise and a shift of the related activities to employees rather than consultants.

Insurance

During the three-month period ended June 30, 2025, insurance expenses increased 14% compared to the same period in the prior year due to increases in business insurance rates and health insurance costs for employees.

Data maintenance

During the three-month period ended June 30, 2025, data maintenance fees increased 11% compared to the three months ended June 30, 2024. The increase in data maintenance fees is due to an increase in costs associated with creating and sending annual and renotification letters for our customers.

General and administrative

General and administrative expenses increased by 12% during the three-month period ended June 30, 2025 compared to the three months ended June 30, 2024. The increase was primarily due to increases in vehicle expenses, dues and subscriptions, licenses and permits, and employee paid time off benefits expenses. The increases were partially offset by decreases in advertising and marketing and miscellaneous expenses.

Income from Operations

During the three-month period ended June 30, 2025, we recognized a 12% increase in total revenue and a 5% increase in total expenses. As a result, our income from operations increased \$111,564, or 58% for the three months ended June 30, 2025, when compared to the three months ended June 30, 2024.

Other Income, net

During the three-month period ended June 30, 2025, other income, net increased \$485,112 compared to the same period in 2024, primarily due to ERC refunds received from the Internal Revenue Service in the amount of \$488,655, which includes interest of \$68,854.

Income Tax Provision

We realized an increase in our income tax provision of \$175,325, or 210%, during the three-month period ended June 30, 2025 compared to the same period in the prior year, which was attributable to the receipt of ERC refund checks and the increase in income from operations during that period, which increased our tax liability.

Net Income

During the three-month period ended June 30, 2025, we realized a 12% increase in total revenues, a 5% increase in total expenses, a \$485,112 increase in other income, net, and a 210% increase in our provision for income tax when compared to the same period in the prior year. As a result, we realized net income of \$636,907, a 195% increase in net income during the three-month period ended June 30, 2025.

Comparison of the six months ended June 30, 2025 and 2024

The following represents selected components of our unaudited condensed consolidated results of operations for the six-month periods ended June 30, 2025 and 2024, respectively, together with changes from period-to-period:

	For six months ended June 30,		Amount Change	% Change
	2025	2024		
Revenues				
HCO	\$ 814,516	\$ 686,201	\$ 128,315	19%
MPN	329,220	292,579	36,641	13%
Medical bill review	212,909	200,671	12,238	6%
Utilization review	1,026,377	986,643	39,734	4%
Medical case management	1,133,883	704,855	429,028	61%
Other	28,450	67,968	(39,518)	(58%)
Total revenues	3,545,355	2,938,917	606,438	21%
Expenses				
Salaries and wages	1,445,570	1,330,730	114,840	9%
Professional fees	377,840	321,468	56,372	18%
Insurance	172,293	158,105	14,188	9%
Outsource service fees	353,140	347,505	5,635	2%
Data maintenance	198,182	66,502	131,680	198%
General and administrative	380,352	347,419	32,933	9%
Total expenses	2,927,377	2,571,729	355,648	14%
Income from operations	617,978	367,188	250,790	68%
Other income (expense)				
Other income	419,801	-	419,801	N/A
Interest income	266,059	206,249	59,810	29%
Interest expense	(1,522)	-	(1,522)	N/A
Total other income, net	684,338	206,249	478,089	232%
Income before taxes	1,302,316	573,437	728,879	127%
Income tax provision	372,746	160,478	212,268	132%
Net income	\$ 929,570	\$ 412,959	\$ 516,611	125%

Revenue

HCO

During the six-month period ended June 30, 2025, HCO revenue increased 19% compared to the same period in the prior year. The increase in HCO revenue was attributable primarily to the timing of when we completed the final annual notifications during each year for the significant customer that is completing a phase out of our services during fiscal year 2025.

MPN

MPN revenue for the six-month period ended June 30, 2025, increased by 13% compared to the same period in the prior year. The increase in MPN revenue was largely due to an increase in monthly MPN program administration fees and custom network fees resulting from the addition of a new customer, and an increase in our existing customers' reported injuries.

Medical bill review

During the six-month period ended June 30, 2025, medical bill review revenue increased by 6% compared to the same period in the prior year. The increase was primarily due to the addition of a new customer, and an increase in requests from an existing customer, partially offset by a decrease in bill review requests from an existing customer.

Medical case management

During the six-month period ended June 30, 2025, medical case management revenue increased 61% compared to the same period in the prior year. The increase was attributable to an increase in managed claims by existing customers, an increase in employee advocate services revenue due to the continued growth of the program, an increase in billing rates for one of our customers, and increased accuracy and efficiency in our related billing processes.

Other

Other revenue for the six-month period ended June 30, 2025, decreased 58% compared to the same period in the prior year, primarily due to the discontinuance of network access fee-related services for the significant customer that is completing a phase out of our services during fiscal year 2025.

Expenses

Salaries and wages

During the six-month period ended June 30, 2025, salaries and wages increased 9% compared to the six months ended June 30, 2024. The increase was due primarily to the addition of one employee during fiscal year 2025. Given the current increased wage inflation trends, we expect salaries and wages will increase in future periods from our efforts to attract and retain employees.

Professional fees

During the six-month period ended June 30, 2025, professional fees increased 18% compared to the six months ended June 30, 2024. The increase in professional fees was primarily the result of increases in accounting and legal services during the first quarter of fiscal year 2025 associated with the transition to a new auditing firm.

Insurance

During the six-month period ended June 30, 2025, insurance expenses increased 9% compared to the same period in the prior year due to increases in business insurance rates and health insurance costs for employees.

Data maintenance

During the six-month period ended June 30, 2025, data maintenance fees increased 198% compared to the six months ended June 30, 2024. The increase in data maintenance fees was primarily due to the timing of when we completed annual and termination letters and related billing during the first quarter of 2025 for the significant customer that is completing a phase out of our services during fiscal year 2025. We expect similar future fluctuations for data maintenance fees when the timing of sending annual and termination letters for customers does not align between comparable periods.

General and administrative

General and administrative expenses increased by 9% during the six-month period ended June 30, 2025 compared to the six months ended June 30, 2024. The increase was primarily due to increases in vehicle expenses, dues and subscriptions, licenses and permits, and meals expenses. The increases were partially offset by decreases in advertising and marketing and miscellaneous expenses.

Income from Operations

During the six-month period ended June 30, 2025, we recognized a 21% increase in total revenue and a 14% increase in total expenses. As a result, our income from operations increased \$250,790, or 68%, for the six months ended June 30, 2025, when compared to the six months ended June 30, 2024.

Other Income, net

During the six-month period ended June 30, 2025, other income, net increased \$478,089, primarily due to ERC refunds received from the Internal Revenue Service in the amount of \$488,655, which includes interest of \$68,854, combined with interest from our investment in U.S. Treasury Bills of \$197,191.

Income Tax Provision

We realized an increase in our income tax provision of \$212,268, or 132%, during the six-month period ended June 30, 2025 compared to the same period in the prior year, which was attributable to the receipt of ERC refund checks and the increase in income from operations during that period, which increased our tax liability.

Net Income

During the six-month period ended June 30, 2025, we realized a 21% increase in total revenues, a 14% increase in total expenses, an increase in other income, net of \$478,089, and a 132% increase in our provision for income tax when compared to the same period in the prior year. As a result, we realized net income of \$929,570, a 125% increase in net income during the six-month period ended June 30, 2025.

Liquidity and Capital Resources

Management currently believes that cash on hand and anticipated cash flows from operations will be sufficient to fund our operations for at least the next twelve months. The Company's primary sources of liquidity are cash, cash equivalents, short-term investments, and future cash generated from operations. However, our ability to generate cash from operations will depend on our future operating performance, which is subject to certain ongoing known and unknown risks and uncertainties. For a discussion of particular risk factors related to our business, see Part I, Item 1A *Risk Factors* of our Annual Report.

We currently have planned certain capital expenditures to replace laptops and ancillary devices due to their age and as part of our ongoing continuity plan. We anticipate investing activities will continue throughout 2025 as we replace aging software, computer equipment, and further enhance our IT security. We anticipate these costs will be significant, but believe we have adequate cash on hand to cover these expenses. We do not anticipate these expenditures will require us to seek outside sources of funding.

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

Cash Flow

During the six months ended June 30, 2025, we had a net increase in cash and cash equivalents of \$85,372. See below for additional discussion and analysis of cash flow.

	For the six months ended June 30,	
	2025 (unaudited)	2024 (unaudited)
Net cash provided by operating activities	\$ 785,838	\$ 143,648
Net cash (used in) investing activities	(664,536)	(181,963)
Net cash (used in) financing activities	(35,930)	105,915
Net increase in cash	\$ 85,372	\$ 67,600

Net cash provided by operating activities was \$785,838 and \$143,648 for the six months ended June 30, 2025 and 2024, respectively. This \$642,190 increase in cash flow from operations during the first half of 2025 was primarily the result of higher net income partially offset by changes in working capital balances.

Net cash used in investing activities was \$664,536 and \$181,963 for the six months ended June 30, 2025 and 2024, respectively. The change in net cash used in investing activities was due to the purchase of US Treasury Bills during the second quarter of 2025.

Net cash provided by (used in) financing activities was (\$35,930) and \$105,915 for the six months ended June 30, 2025 and 2024, respectively. The change in net cash used in financing activities from period to period was primarily due to our insurance financing agreement entered into during fiscal year 2024, which matured early in fiscal year 2025.

Off-Balance Sheet Financing Arrangements

As of June 30, 2025, we had no off-balance sheet financing arrangements.

Inflation

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

For more detailed information about our critical accounting estimates related to us and our business, see “*Critical Accounting Estimates*” under Part II, Item 7 *Management’s Discussion and Analysis of Financial Condition and Results of Operations* of our Annual Report.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

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

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

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

Our management, with the participation of our principal executive officer and principal financial officer, conducted an evaluation of the effectiveness of our disclosure controls and procedures as of the end of the period covered by this quarterly report. Based on the evaluation of our disclosure controls and procedures as of June 30, 2025, the end of the period covered by this quarterly report, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective at a reasonable assurance level.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the quarter ended June 30, 2025, that materially affected or are reasonably likely to materially affect our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1A. Risk Factors

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

Item 5. Other Information

Insider Trading Arrangements

During the quarter ended June 30, 2025, none of our directors or executive officers adopted, modified or terminated any contract, instruction or written plan for the purchase or sale of our securities that was intended to satisfy the affirmative defense conditions of Rule 10b5-1(c) or any “non-Rule 10b5-1 trading arrangement” as defined in Item 408(c) of Regulation S-K.

Company Bylaws Amendments and Restatement

As previously disclosed on Current Report on Form 8-K filed with the SEC on February 14, 2018, on February 8, 2018, the board of directors of the Company approved an amendment to Section 3.02 of the Company’s Bylaws to increase the maximum number of authorized directorships from seven members to nine, and to make other immaterial corrections to spelling errors and formatting (the “February 2018 Bylaws”). However, in the Company’s quarterly and annual reports filed with the SEC after February 14, 2018, the February 2018 Bylaws were inadvertently not included as an Exhibit. A copy of the February 2018 Bylaws is filed as Exhibit 3.4 to Item 6 of this quarterly report.

On July 31, 2025, the board of directors of the Company approved an amendment to and restatement of the Company’s Bylaws (the “July 2025 Bylaws”). The July 2025 Bylaws were amended to: (i) update the minimum number of directors from two members to three members (Section 3.02), (ii) reduce the notice requirement for special meetings of the board of directors from two days to 24 hours (Section 3.09), (iii) remove the statement that the Chief Financial Officer may be removed by the Chief Executive Officer or Co-Chairmen of the board of directors (Section 4.03), (iv) remove the requirements that the Treasurer shall also be the principal financial officer and principal accounting officer of the Company (Section 4.04(d)), (v) clarify that in discharging their duties, directors and officers are entitled to rely on information and reports prepared or presented by officers or employees of Company subsidiaries (Section 5.02), and (vi) to make additional technical, conforming and/or simplifying revisions. The above summary does not purport to be complete and is qualified in its entirety by reference to the full text of the July 2025 Bylaws, a copy of which is filed as Exhibit 3.5 to Item 6 of this quarterly report and incorporated herein by reference.

Item 6. Exhibits

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

Exhibit No.	Exhibit Description
3.1	Articles of Incorporation and Amendments thereto⁽¹⁾
3.2	Bylaws⁽¹⁾
3.3	Bylaws⁽²⁾
3.4	Bylaws⁽³⁾
3.5	Bylaws*
3.6	Articles of Amendment to Articles of Incorporation to effect 1 share for 50 shares reverse split⁽⁴⁾
3.7	Articles of Amendment to Articles of Incorporation to effect 2.5 shares for 1 share forward split⁽⁴⁾
3.8	Certificate of Designation of Rights, Privileges and Preferences of Series A Convertible Preferred Stock⁽⁵⁾
3.9	Articles of Amendment to Articles of Incorporation to affect four-shares-for-one-share forward split⁽⁶⁾
3.10	Articles of Amendment to Articles of Incorporation, dated December 27, 2019, including Amended Certification of Designation of Rights, Privileges and Preferences of Series A Convertible Preferred Stock to affect a four-shares-for-one-share forward stock split⁽⁷⁾
31.1	Certification of Principal Executive Officer pursuant to Exchange Act Rule 13a-14(a)/15d-14(a) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002*
31.2	Certification of Principal Financial Officer pursuant to Exchange Act Rule 13a-14(a)/15d-14(a) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002*
32	Certification pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002*
101	Pursuant to Rules 405 and 406 of Regulation S-T, the following information is formatted in iXBRL (Inline eXtensible Business Reporting Language): (i) the Condensed Consolidated Balance Sheets as of June 30, 2025 (Unaudited) and December 31, 2024, (ii) the Unaudited Condensed Consolidated Statements of Operations for the three and six months ended June 30, 2025 and 2024, (iii) the Unaudited Condensed Consolidated Statements of Stockholder's Equity for the three and six months ended June 30, 2025 and 2024 (iv) the Unaudited Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2025 and 2024, and (v) Notes to Condensed Consolidated Financial Statements (Unaudited), and (vi) the cover page.*
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

* Filed or furnished herewith, as applicable.

- (1) Incorporated by reference to Registrant's Registration Statement on Form 10-SB as filed with the SEC on September 19, 2002.
- (2) Incorporated by reference to Registrant's Registration Statement on Form 10-SB/A-2 as filed with the SEC on July 13, 2004.
- (3) Incorporated by reference to Registrant's Current Report on Form 8-K as filed with the SEC on February 14, 2018.
- (4) Incorporated by reference to Registrant's Definitive Proxy Statement on Schedule 14A as filed with the SEC on March 13, 2008.
- (5) Incorporated by reference to Registrant's Current Report on Form 8-K as filed with the SEC on November 22, 2016.
- (6) Incorporated by reference to Registrant's Current Report on Form 8-K as filed with the SEC on March 27, 2018.
- (7) Incorporated by reference to Registrant's Current Report on Form 8-K as filed with the SEC on January 2, 2020.

SIGNATURES

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

Date: July 31, 2025

PACIFIC HEALTH CARE ORGANIZATION, INC.

/s/ Tom Kubota

Tom Kubota

Chief Executive Officer,

President and Chairman of the Board

(Principal Executive, Financial and Accounting Officer)

BYLAWS
OF
PACIFIC HEALTH CARE ORGANIZATION, INC.
A Utah Corporation
(As amended and restated effective July 31, 2025)

INDEX TO BYLAWS
OF
PACIFIC HEALTH CARE ORGANIZATION, INC.

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AMENDED AND RESTATED BYLAWS
OF
PACIFIC HEALTH CARE ORGANIZATION, INC.
(As amended and restated effective July 31, 2025)

ARTICLE I

Offices

Section 1.01 Business Offices. The corporation may have such offices, either within or outside Utah, as the board of directors may from time to time determine or as the business of the corporation may from time to time require.

Section 1.02 Principal Office. The principal office of the corporation shall be located at any place either within or outside Utah as may be designated in the most recent document on file with the Utah Department of Commerce, Division of Corporations and Commercial Code (the "Division") providing information regarding the principal office of the corporation. The corporation shall maintain at its principal office a copy of such corporate records as may be required by Section 1601 of the Utah Revised Business Corporation Act ("the "Act") and Section 2.16 of these bylaws.

Section 1.03 Registered Office. The registered office of the corporation required by the Act to be maintained in Utah shall be the registered office as originally so designated in the corporation's articles of incorporation or subsequently designated as the corporation's registered office in the most recent document on file with the Division providing such information.

ARTICLE II

Shareholders

Section 2.01 Annual Meeting. The annual meeting of shareholders shall be held each year on a date and at a time designated by the board of directors. In the absence of such designation, the annual meeting of shareholders shall be held on the second Monday of February in each year at 10:00 a.m. However, if the day fixed for the annual meeting is a legal holiday in Utah, then the meeting shall be held at the same time and place on the next succeeding business day. At the meeting, directors shall be elected and any other proper business may be transacted. If the election of directors shall not be held on the day designated herein for any annual meeting of the shareholders, or at any adjournment thereof, the board of directors shall cause the election to be held at a meeting of the shareholders as soon thereafter as may be convenient. Failure to hold an annual meeting as required by these bylaws shall not affect the validity of any corporate action or work a forfeiture or dissolution of the corporation. (Section 701 of the Act).

Section 2.02 Special Meetings. Special meetings of the shareholders may be called at any time by the board of directors, by the Chairman of the Board, by the President of the corporation, by any two directors of the corporation, or by such other officers or persons as may be authorized by these bylaws to call a special meeting, or by the holders of shares representing at least ten percent (10%) of all of the votes entitled to be cast on any issue proposed to be considered at the meeting, all in accordance with Section 702 of the Act.

Section 2.03 Place of Meetings. Each annual or special meeting of the shareholders shall be held at such place, either within or outside Utah, as may be designated by the board of directors. In the absence of any such designation, meetings shall be held at the principal office of the corporation.

Section 2.04 Notice of Meetings.

(a) Required Notice. The corporation shall give notice to shareholders of the date, time, and place of each annual and special meeting of shareholders no fewer than ten (10) nor more than sixty (60) days before the meeting date, in accordance with the requirements of Sections 103 and 705 of the Act. Unless otherwise required by law or the articles of incorporation, the corporation is required to give the notice only to shareholders entitled to vote at the meeting. The notice requirement will be excused under certain circumstances with respect to shareholders whose whereabouts are unknown, as provided in Section 705(5) of the Act.

If the proposed corporate action creates dissenters' rights, the notice must be sent to all shareholders of the corporation as of the applicable record date, whether or not they are entitled to vote at the meeting (Section 1320(1) of the Act).

(b) Contents of Notice. The notice of each special meeting must include a description of the purpose or purposes for which the meeting is called. Except as provided in this Section 2.04(b), or as otherwise required by the Act, other applicable law, or the articles of incorporation, notice of an annual meeting need not include a description of the purpose or purposes for which the meeting is called.

If a purpose of any shareholder meeting is to consider: (i) a proposed amendment to the articles of incorporation (Section 1003(4) of the Act); (ii) a plan of merger or share exchange (Section 1103(4) of the Act); (iii) the sale, lease, exchange or other disposition of all, or substantially all of the corporation's property (Section 1202(5) of the Act); (iv) the dissolution of the corporation (Section 1402(4) of the Act); or (v) the removal of a director (Section 808(4) of the Act), the notice must so state and be accompanied by a copy or summary of the transaction documents, as set forth in the above-referenced sections of the Act.

If the proposed corporate action creates dissenters' rights, the notice must state that shareholders are, or may be, entitled to assert dissenters' rights, and must be in compliance with Section 1320 of the Act.

(c) Adjourned Meeting. If any annual or special meeting of shareholders is adjourned to a different date, time or place, then subject to the requirements of the following sentence notice need not be given of the new date, time and place if the new date, time and place are announced at the meeting before adjournment. If the adjournment is for more than thirty (30) days, or if after the adjournment a new record date for the adjourned meeting is or must be fixed under Section 707 of the Act and Section 2.05 of these bylaws, notice of the adjourned meeting must be given pursuant to the requirements of paragraph 2.04(a) of these bylaws to shareholders of record entitled to vote at the meeting.

(d) Waiver of Notice. A shareholder may waive notice of any meeting (or any other notice required by the Act, the articles of incorporation or these bylaws) by a writing signed by the shareholder entitled to the notice, which is delivered to the corporation (either before or after the date and time stated in the notice as the date and time when any action will occur), for inclusion in the minutes or filing with the corporation records. A shareholder's attendance at a meeting: (i) waives objection to lack of notice or defective notice of the meeting, unless the shareholder at the beginning of the meeting objects to holding the meeting or transacting business at the meeting because of lack of notice or defective notice; and (ii) waives objection to consideration of a particular matter at the meeting that is not within the purpose or purposes described in the meeting notice, unless the shareholder objects to considering the matter when it is presented. (Section 706 of the Act).

Section 2.05 Fixing of Record Date. For the purpose of determining shareholders of any voting group entitled to: (i) notice of or to vote at any meeting of shareholders or any adjournment thereof; (ii) take action without a meeting; (iii) demand a special meeting; (iv) receive payment of any distribution or share dividend; or (v) take any other action, the board of directors may fix in advance a date as the record date (as defined in Section 102 (29) of the Act) for one or more voting groups. A record date fixed pursuant to such section may not be more than 70 days prior to the date on which the particular action requiring such determination of shareholders is to be taken. If no record date is otherwise fixed by the board as provided herein, then the record date for the purposes set forth below shall be the close of business on the dates indicated:

(a) With respect to a determination of shareholders entitled to notice of and to vote at an annual or special meeting of shareholders, the day before the first notice is delivered to shareholders;

(b) With respect to a determination of shareholders entitled to demand a special meeting of shareholders pursuant to Section 702(1)(b) of the Act, the later of (i) the earliest date of any of the demands pursuant to which the meeting is called, and (ii) the date that is sixty days prior to the date the first of the written demands pursuant to which the meeting is called is received by the corporation;

(c) With respect to a determination of shareholders entitled to a share dividend, the date the board authorizes the share dividend;

(d) With respect to a determination of shareholders entitled to take action without a meeting (pursuant to Section 2.12 of these bylaws and Section 704 of the Act) or entitled to be given notice of an action so taken, the date the first shareholder delivers to the corporation a writing upon which the action is taken; and

(e) With respect to a determination of shareholders entitled to a distribution (other than one involving a purchase or reacquisition of shares for which no record date is necessary), the date the board of directors authorizes the distribution.

A determination of shareholders entitled to notice of or to vote at any meeting of shareholders is effective for any adjournment of the meeting unless the board of directors fixes a new record date, which it must do if the meeting is adjourned to a date more than 120 days after the date fixed for the original meeting.

Section 2.06 Shareholder List for Meetings. The officer or agent having charge of the stock transfer books for shares of the corporation shall prepare a list of the names of all shareholders entitled to be given notice of, and to vote at, each meeting of shareholders, in compliance with the requirements of Section 720 of the Act. The list must be arranged by voting group and within each voting group by class or series of shares. The list must be in alphabetical order within each class or series of shares and must show the address of, and the number of shares held by, each shareholder. The shareholder list must be available for inspection by any shareholder, beginning on the earlier of (i) ten days before the meeting for which the list was prepared, or (ii) two business days after notice of the meeting is given, and continuing through the meeting and any adjournments thereof. The list must be available at the corporation's principal office or at a place identified in the meeting notice in the city where the meeting is to be held. A shareholder or a shareholder's agent or attorney is entitled on written demand to the corporation, and subject to the provisions of Sections 720, 602 and 1603 of the Act, to inspect and copy the list during regular business hours, during the period it is available for inspection. The list is to be available at the meeting for which it was prepared, and any shareholder or any shareholder's agent or attorney is entitled to inspect the list at any time during the meeting for any purpose germane to the meeting. The shareholder list is to be maintained in written form or in another form capable of conversion into written form within a reasonable time.

Section 2.07 Shareholder Quorum and Voting Requirements. If the articles of incorporation or the Act provides for voting by a single voting group on a matter, action on that matter is taken when voted upon by that voting group.

Shares entitled to vote as a separate voting group may take action on a matter at a meeting only if a quorum of such shares exists with respect to that matter. Unless the articles of incorporation, a bylaw adopted pursuant to Section 2.08 hereof, or the Act provide otherwise, a majority of the votes entitled to be cast on the matter by the voting group constitutes a quorum of that group for action on that matter.

If the articles of incorporation or the Act provides for voting by two or more voting groups on a matter, action on that matter is taken only when voted upon by each of those voting groups counted separately. One voting group may vote on a matter even though another voting group entitled to vote on the matter has not voted.

Once a share is represented for any purpose at a meeting, including the purpose of determining that a quorum exists, it is deemed present for quorum purposes for the remainder of the meeting and for any adjournment of the meeting, unless a new record date is or must be set for the adjourned meeting.

If a quorum exists, action on a matter (other than the election of directors) by a voting group is approved if the votes cast within the voting group favoring the action exceed the votes cast within the voting group opposing the action, unless the articles of incorporation, a bylaw adopted pursuant to Section 2.08 hereof, or the Act requires a greater number of affirmative votes. Those matters as to which the Act provides for a special voting requirement, typically requiring the vote of a majority of all votes entitled to be cast, or a majority of all voting shares within each voting group which is entitled to vote separately, include certain amendments to the articles of incorporation, mergers, sales of substantially all corporate assets, and dissolution of the corporation.

Section 2.08 Increasing Quorum or Voting Requirements. As specified in Section 727 of the Act, the articles of incorporation may provide for a greater quorum or voting requirement for shareholders, or voting groups of shareholders, than is provided for by the Act. An amendment to the articles of incorporation that changes or deletes a greater quorum or voting requirement must meet the same quorum requirement and be adopted by the same vote and voting groups required to take action under the quorum and voting requirements then in effect. Pursuant to Section 1021 of the Act, if authorized by the articles of incorporation, the shareholders may adopt, amend, or repeal a bylaw that fixes a greater quorum or voting requirement for shareholders, or voting groups of shareholders, than is required by the Act. Any such action is subject to the provisions of Part 7 of the Act. A bylaw that fixes a greater quorum or voting requirement for shareholders as set forth in the preceding sentence may not be adopted, amended, or repealed by the board of directors.

Section 2.09 Proxies. At all meetings of shareholders, a shareholder may vote in person or by proxy. A shareholder may appoint a proxy by signing an appointment form, either personally or by the shareholder's attorney-in fact, or by any of the other means set forth in Section 722 of the Act. A proxy appointment is valid for eleven months unless a longer period is expressly provided in the appointment form. The effectiveness and revocability of proxy appointments are governed by Section 722 of the Act.

Section 2.10 Voting of Shares. Unless otherwise provided in the articles of incorporation, in Section 721 of the Act, or other applicable law, each outstanding share, regardless of class, is entitled to one vote, and each fractional share is entitled to a corresponding fractional vote, on each matter voted on at a shareholders' meeting. Only shares are entitled to vote.

Except as otherwise provided by specific court order as contemplated by Section 721(2) of the Act, shares of the corporation are not entitled to be voted or to be counted in determining the total number of outstanding shares eligible to be voted if they are owned, directly or indirectly, by a second corporation, domestic or foreign, and the corporation owns, directly or indirectly, a majority of the shares entitled to vote for directors of the second corporation. The prior sentence shall not limit the power of the corporation to vote any shares, including its own shares, held by it in a fiduciary capacity. Redeemable shares are not entitled to be voted after notice of redemption is mailed to the holders and a sum sufficient to redeem the shares has been deposited with a bank, trust company, or other financial institution under an irrevocable obligation to pay the holders the redemption price on surrender of the shares.

Section 2.11 Corporation's Acceptance of Votes. If the name signed on a vote, consent, waiver, proxy appointment, or proxy appointment revocation corresponds to the name of a shareholder, the corporation, if acting in good faith, is entitled to accept the vote, consent, waiver, proxy appointment, or proxy appointment revocation and give it effect as the act of the shareholder.

If the name signed on a vote, consent, waiver, proxy appointment, or proxy appointment revocation does not correspond to the name of a shareholder, the corporation, if acting in good faith, is nevertheless entitled to accept the vote, consent, waiver, proxy appointment, or proxy appointment revocation and give it effect as the act of the shareholder if:

- (a) the shareholder is an entity and the name signed purports to be that of an officer or agent of the entity;
- (b) the name signed purports to be that of an administrator, executor, guardian, or conservator representing the shareholder and, if the corporation requests, evidence of fiduciary status acceptable to the corporation has been presented with respect to the vote, consent, waiver, proxy appointment, or proxy appointment revocation;
- (c) the name signed purports to be that of a receiver or trustee in bankruptcy of the shareholder and, if the corporation requests, evidence of this status acceptable to the corporation has been presented with respect to the vote, consent, waiver, proxy appointment, or proxy appointment revocation;
- (d) the name signed purports to be that of a pledgee, beneficial owner, or attorney-in-fact of the shareholder and, if the corporation requests, evidence acceptable to the corporation of the signatory's authority to sign for the shareholder has been presented with respect to the vote, consent, waiver, proxy appointment, or proxy appointment revocation;
- (e) two or more persons are the shareholder as cotenants or fiduciaries and the name signed purports to be the name of- at least one of the cotenants or fiduciaries and the person signing appears to be acting on behalf of all cotenants or fiduciaries; or
- (f) the acceptance of the vote, consent, waiver, proxy appointment, or proxy appointment revocation is otherwise proper under rules established by the corporation that are not inconsistent with the provisions of Section 724 of the Act.

If shares are registered in the names of two or more persons, whether fiduciaries, members of a partnership, cotenants, husband and wife as community property, voting trustees, persons entitled to vote under a shareholder voting agreement or otherwise, or if two or more persons, including proxyholders, have the same fiduciary relationship respecting the same shares, then unless the secretary of the corporation or other officer or agent entitled to tabulate votes is given written notice to the contrary and is furnished with a copy of the instrument or order appointing them or creating the relationship wherein it is so provided, their acts with respect to voting shall have the effects set forth in Section 724(3) of the Act.

The corporation is entitled to reject a vote, consent, waiver, proxy appointment, or proxy appointment revocation if the secretary or other officer or agent authorized to tabulate votes, acting in good faith, has reasonable basis for doubt about the validity of the signature on it or about the signatory's authority to sign for the shareholder.

The corporation and its officer or agent who accepts or rejects a vote, consent, waiver, proxy appointment, or proxy appointment revocation in good faith and in accordance with the standards of Section 724 of the Act are not liable in damages to the shareholder for the consequences of the acceptance or rejection.

Corporate action based on the acceptance or rejection of a vote, consent, waiver, proxy appointment, or proxy appointment revocation under this section and Section 724 of the Act is valid unless a court of competent jurisdiction determines otherwise.

Section 2.12 Action Without a Meeting. Unless otherwise provided in the articles of incorporation, and subject to the provisions of Section 704 of the Act, any action required or permitted to be taken at a meeting of the shareholders may be taken without a meeting and without prior notice, if one or more consents in writing, setting forth the action so taken, shall be signed by the holders of outstanding shares having no less than the minimum number of votes that would be necessary to authorize or take the action at a meeting at which all shares entitled to vote thereon were present and voted. Unless the written consents of all shareholders entitled to vote have been obtained, notice of any shareholder approval without a meeting shall be given at least ten days before the consummation of the action authorized by the approval. Such notice shall meet the requirements of, and be delivered to all shareholders identified in, Section 704(2) of the Act.

Any shareholder giving a written consent, or the shareholder's proxyholder, personal representative or transferee may revoke a consent by a signed writing describing the action and stating that the shareholder's prior consent is revoked, if the writing is received by the corporation prior to the effectiveness of the action.

An action taken by written consent of the shareholders as provided herein is not effective unless all written consents on which the corporation relies for the taking of the action are received by the corporation within a sixty day period. An action so taken is effective as of the date the last written consent necessary to effect the action is received by the corporation, unless all of the written consents necessary to effect the action specify a later date as the effective date of the action, in which case the later date shall be the effective date of the action.

Unless otherwise provided in these bylaws, the written consents may be received by the corporation by electronic transmission or other form of communication providing the corporation with a complete copy thereof, including a copy of the signature thereto.

Notwithstanding the other provisions of these bylaws, directors may not be elected by written consent except by unanimous written consent of all shares entitled to vote for the election of directors.

As set forth in Section 2.05(d) above, if not otherwise determined as permitted by the Act and these bylaws, the record date for determining shareholders entitled to take action without a meeting or entitled to be given notice of any action so taken is the date the first shareholder delivers to the corporation a writing upon which the action is taken.

An action taken by written consent of the shareholders as provided herein has the same effect as action taken at a meeting of shareholders, and may be so described in any document.

Section 2.13 Meetings by Telecommunication. As permitted by Section 708 of the Act, unless otherwise provided in these bylaws, any or all of the shareholders may participate in an annual or special meeting of shareholders by, or the meeting may be conducted through the use of, any means of communication by which all persons participating in the meeting can hear each other during the meeting. A shareholder participating in a meeting by this means is considered to be present in person at the meeting.

Section 2.14 Voting Trusts and Agreements. Voting trusts and agreements may be entered into among the shareholders in compliance with the requirements of Sections 730, 731 and 732 of the Act.

Section 2.15 Voting for Directors. Unless otherwise provided in the articles of incorporation or the Act, directors are elected by a plurality of the votes cast by the shares entitled to vote in the election at a meeting at which a quorum is present, in accordance with the requirements and procedures set forth in Section 728 of the Act. Cumulative voting is permitted only if specifically provided in the articles of incorporation.

Section 2.16 Maintenance of Records and Shareholder Inspection Rights.

(a) Corporate Records. As required by Section 1601 of the Act, the corporation shall keep as permanent records minutes of all meetings of its shareholders and board of directors, a record of all actions taken by the shareholders or board of directors without a meeting, a record of all actions taken on behalf of the corporation by a committee of the board of directors in place of the board of directors, and a record of all waivers of notices of meetings of shareholders, meetings of the board of directors, or any meetings of committees of the board of directors. The corporation shall also maintain appropriate accounting and shareholder records as required by the statute. The corporation shall keep at its principal office those corporate records and documents identified in Section 1601(5) of the Act and listed in the following paragraph.

(b) Inspection Rights of Records Required at Principal Office. Pursuant to Section 1602(1) of the Act, a shareholder or director of the corporation (or such person's agent or attorney) who gives the corporation written notice of the demand at least five business days before the proposed inspection date, has the right to inspect and copy, during regular business hours, any of the following records, all of which the corporation is required to keep at its principal office:

- (i) its articles of incorporation as then in effect;
- (ii) its bylaws as then in effect;
- (iii) the minutes of all shareholders' meetings, and records of all actions taken by shareholders without a meeting, for the past three years;
- (iv) all written communications within the past three years to shareholders as a group or to the holders of any class or series of shares as a group;
- (v) a list of the names and addresses of its current officers and directors;
- (vi) its most recent annual report delivered to the Division; and
- (vii) all financial statements prepared for periods ending during the last three years that a shareholder could request under Section 1605 of the Act.

(c) Conditional Inspection Rights. In addition to the inspection rights set forth in paragraph (b) above, a shareholder or director of the corporation (or such person's agent or attorney) who gives the corporation a written demand in good faith and for a proper purpose at least five business days before the requested inspection date, and describes in the demand with reasonable particularity the records proposed to be inspected and the purpose of the inspection, is entitled to inspect and copy, during regular business hours at a reasonable location specified by the corporation, any of the following records of the corporation:

- (i) excerpts from minutes of meetings of, and from actions taken by, the shareholders, the board of directors, or any committees of the board of directors, to the extent not subject to inspection under paragraph (b) of this Section 2.16;
- (ii) accounting records of the corporation; and
- (iii) the record of shareholders (compiled no earlier than the date of the demand for inspection).

For the purposes of paragraph (c), a proper purpose means a purpose reasonably related to the demanding party's interest as a shareholder or director. A party may not use any information obtained through the inspection or copying of records permitted by this paragraph (c) for any purposes other than those set forth in a proper demand as described above, and the officers of the corporation are authorized to take appropriate steps to ensure compliance with this limitation.

Section 2.17 Financial Statements and Share Information. Upon the written request of any shareholder, the corporation shall mail to the requesting shareholder:

(a) its most recent annual or quarterly financial statements showing in reasonable detail its assets and liabilities and the results of its operations, as required by Section 1605 of the Act; and

(b) the information specified by Section 625(3) of the Act, regarding the designations, preferences, limitations, and relative rights applicable to each class and series of shares of the corporation, and the authority of the board of directors to determine variations for any existing or future class or series, as required by Section 1606 of the Act.

Section 2.18 Dissenters' Rights. Each shareholder of the corporation shall have the right to dissent from, and obtain payment of the fair value of shares held by such shareholder in the event of, any of the corporate actions identified in Section 1302 of the Act or otherwise designated in the articles of incorporation, these bylaws, or in a resolution of the board of directors.

Section 2.19 Shares Held by Nominees. The board of directors is authorized to establish for the corporation from time to time such procedures as the directors may determine to be appropriate, by which the beneficial owner of shares that are registered in a nominee is recognized by the corporation as a shareholder.

ARTICLE III

Board of Directors

Section 3.01 General Powers. All corporate powers shall be exercised by or under the authority of, and the business and affairs of the corporation shall be managed under the direction of, the board of directors, subject to any limitation set forth in the articles of incorporation or in a shareholder agreement permitted by Section 732 of the Act.

Section 3.02 Number, Tenure and Qualifications. Unless otherwise specifically provided in the articles of incorporation, and subject to the provisions of Section 803 of the Act, the number of directors of the corporation shall be fixed from time to time by resolution of the board of directors or shareholders. The corporation's board of directors shall consist of a minimum of three (3) members and may be increased up to a maximum of nine (9) members.

Each director shall hold office until the next annual meeting of shareholders (unless the articles of incorporation provide for staggering the terms of directors as permitted by Section 806 of the Act) or until removed. However, a director whose term expires shall continue to serve until such director's successor shall have been elected and qualified or until there is a decrease in the authorized number of directors. No decrease in the authorized number of directors shall have the effect of shortening the term of any incumbent director. Unless required by the articles of incorporation, directors do not need to be residents of Utah or shareholders of the corporation.

If the articles of incorporation authorize dividing the shares into classes or series, the articles of incorporation may also authorize the election of all or a specified number or portion of directors by the holders of one or more authorized classes or series of shares.

Section 3.03 Resignation. Any director may resign at any time by giving a written notice of resignation to the corporation. A director's resignation is effective when the notice is received by the corporation, or on such later date as may be specified in the notice of resignation. (Section 807 of the Act).

Section 3.04 Removal. The shareholders may remove one or more directors at a meeting called for that purpose, as contemplated by Section 808 of the Act, if the meeting notice states that a purpose of the meeting is such removal. The removal may be with or without cause unless the articles of incorporation provide that directors may be removed only for cause. If a director is elected by a voting group of shareholders, only the shareholders of that voting group may participate in the vote to remove the director. If the articles of incorporation provide for cumulative voting for the election of directors, a director may not be removed if a number of votes sufficient to elect the director under such cumulative voting is voted against removal. If cumulative voting is not in effect, a director may be removed only if the number of votes cast to remove the director exceeds the number of votes cast against removal.

Section 3.05 Vacancies. Unless the articles of incorporation provide otherwise, if a vacancy occurs on the board of directors, including a vacancy resulting from an increase in the number of directors, the vacancy may be filled by the shareholders or the board of directors.

If the vacant office was held by a director elected by a voting group of shareholders, only the holders of the shares of that voting group are entitled to vote to fill the vacancy if it is filled by the shareholders.

A vacancy that will occur at a specific later date (by reason of a resignation effective at a later date or otherwise) may be filled before the vacancy occurs, but the new director may not take office until the vacancy occurs.

The terms of directors elected to fill vacancies generally expire at the next annual shareholders' meeting. If a new director is elected to fill a vacancy in a position having a term extending beyond the date of the next annual meeting of shareholders, the term of such new director is governed by Section 805(4) of the Act.

Section 3.06 Regular Meetings. Regular meetings of the board of directors may be held without notice of the date, time, place or purposes of the meetings, if the times of such meetings are fixed by resolution of the board of directors.

Section 3.07 Special Meetings. Special meetings of the board of directors may be called by or at the request of the president or any two directors. The person or persons authorized to call special meetings of the board of directors may fix the time and place of the meetings so called.

Section 3.08 Place of Meetings. The board of directors may hold regular or special meetings in or out of the State of Utah. Unless the articles of incorporation or bylaws provide otherwise, the board of directors may permit any or all directors to participate in a regular or special meeting by, or conduct the meeting through the use of, any means of communication by which all directors participating may hear each other during the meeting.

Section 3.09 Notice of Meetings. Unless the articles of incorporation, bylaws, or the Act provide otherwise, regular meetings of the board may be held without notice of the date, time, place, or purposes of the meeting. Unless the articles of incorporation or bylaws provide for a longer or shorter period, special meetings of the board of directors must be preceded by at least 24 hours' notice of the date, time, and place of the meeting. The notice need not describe the purpose of the special meeting unless required by the articles of incorporation, bylaws, or the Act.

The giving of notice of any meeting, shall be governed by the rules set forth in Section 103 of the Act.

Section 3.10 Waiver of Notice. Any director may waive notice of any meeting before or after the date of the meeting. Except as provided in the next sentence, the waiver must be in writing, signed by the director entitled to the notice, and delivered to the corporation for filing with the corporate records (but delivery and filing are not conditions to its effectiveness). A director's attendance at or participation in a meeting waives any required notice to the director of the meeting unless the director at the beginning of the meeting, or promptly upon the director's arrival, objects to holding the meeting or transacting business at the meeting because of lack of notice or defective notice, and does not thereafter vote for or assent to action taken at the meeting.

Section 3.11 Quorum and Manner of Acting. Unless the articles of incorporation or these bylaws establish a different quorum requirement, a quorum of the board of directors consists of a majority of the number of directors fixed or prescribed in accordance with these bylaws, except that if a variable range board is permitted by these bylaws and no resolution prescribing the exact number within the permitted range is in effect, then a quorum consists of a majority of the number of directors in office immediately before the meeting. The articles of incorporation or bylaws may authorize a quorum of the board of directors to consist of no fewer than one third of the fixed or prescribed number of directors. Any adjustment of the then applicable quorum requirement is subject to the provisions of Section 1022 of the Act and Section 3.13 of these bylaws.

The affirmative vote of a majority of directors present at a meeting at which a quorum is present when the vote is taken shall be the act of the board of directors, unless the articles of incorporation, bylaws, or the Act require the vote of a greater vote of directors. Any action to change the percentage of directors needed to take action is subject to the provisions of Section 1022 of the Act and Section 3.13 of these bylaws.

As set forth in Section 824(4) of the Act, a director who is present at a meeting of the board of directors when corporate action is taken is considered to have assented to the action taken at the meeting unless:

(a) the director objects at the beginning of the meeting (or promptly upon arrival) to holding the meeting or transacting business at the meeting and does not thereafter vote for or assent to any action taken at the meeting;

(b) the director contemporaneously requests that such directors dissent or abstention as to any specific action be entered into the minutes of the meeting; or

(c) the director causes written notice of a dissent or abstention as to any specific action to be received by the presiding officer of the meeting before adjournment of the meeting or by the corporation promptly after adjournment of the meeting. The right of dissent or abstention as to a specific action is not available to a director who votes in favor of the action taken.

Section 3.12 Action Without a Meeting. Unless the articles of incorporation, these bylaws or the Act provide otherwise, any action required or permitted to be taken by the board of directors at a meeting may be taken without a meeting if all the directors consent in writing to the action. Action is considered to have been taken by such written consents when the last director signs a writing describing the action taken, unless prior to that time any director has revoked a consent by a writing signed by the director and received by an authorized officer of the corporation. An action so taken is effective at the time it is taken, unless the board of directors establishes a different effective date. An action taken by written consent of the directors as described in this section has the same effect as action taken at a meeting of directors and may be described as such in any document.

Section 3.13 Altering Quorum or Voting Requirements. A bylaw that fixes a greater quorum or voting requirement for the board of directors than is required by the Act may be amended or repealed:

(a) if originally adopted by the shareholders, only by the shareholders, unless the bylaw specifically provided that it could be amended by a vote of either the shareholders or the board of directors; or

(b) if originally adopted by the board of directors, by the shareholders or, unless otherwise provided in the articles of incorporation or bylaws, by the board of directors.

Action by the board of directors to amend or repeal a bylaw that changes the quorum or voting requirement for the board of directors must meet the same quorum requirement and be adopted by the same vote required to take action under the quorum and voting requirement then in effect or proposed to be adopted, whichever is greater.

Section 3.14 Compensation. Unless otherwise provided in the articles of incorporation or these bylaws, the board of directors may fix the compensation of directors. Pursuant to this authority, the directors may, by resolution, provide for directors to be paid their expenses, if any, of attendance at each meeting of the board of directors, and may be paid a stated salary as director or a fixed sum for attendance at each meeting of the board of directors or both. No such payment shall preclude any director from serving the corporation in any capacity and receiving compensation therefor.

Section 3.15 Committees.

(a) Creation of Committees. Unless the articles of incorporation or these bylaws provide otherwise, a board of directors may create one or more committees and appoint members of the board of directors to serve on them. Each committee must have one or more members, who serve at the pleasure of the board of directors (Section 825 of the Act).

(b) Selection of Committee Members. The creation of a committee and appointment of members to it must be approved by the greater of:

(i) a majority of all the directors in office when the action is taken; or

(ii) the number of directors required by the articles of incorporation or bylaws to take action under Section 824 of the Act and Section 3.11 of these bylaws.

(c) Required Procedures. Sections 820 and 824 of the Act, and Sections 3.06 through 3.11 of these bylaws, which govern meetings, action without meeting, notice, waiver of notice, and quorum and voting requirements of the board of directors, apply to committees and their members as well. Any resolutions adopted by the board of directors in connection with the creation of any committee may establish additional quorum and voting requirements applicable to such committee, including provisions to ensure representation of each of the corporation's investor groups at each meeting of such committee.

(d) Authority. Unless limited by the articles of incorporation or these bylaws, each committee may exercise those aspects of the authority of the board of directors (as set forth in Section 801 of the Act and Section 3.01 of these bylaws) which the board of directors confers upon such committee in the resolution creating the committee.

(e) Impact on Duty of Directors. The creation of, delegation of authority to, or action by a committee does not alone constitute compliance by a director with the standards of conduct described in Section 840 of the Act and referenced in Section 3.16 of these bylaws.

Section 3.16 Standards of Conduct. Each director is to discharge such director's duties as a director, including duties as a member of a committee, in compliance with the standards of conduct set forth in Section 840 of the Act and described in Article V of these bylaws.

Section 3.17 Limitation of Liability. If not already so provided in the articles of incorporation, the corporation may eliminate or limit the liability of directors to the corporation or to its shareholders for monetary damages for any action taken or any failure to take action as a director, by an amendment to its articles of incorporation, or by the adoption of a bylaw or resolution approved by the same percentage of shareholders as would be required to approve an amendment to the articles of incorporation to include such provision. No such provision may eliminate or limit the liability of a director for:

(a) the amount of a financial benefit received by a director to which the director is not entitled;

- (b) an intentional infliction of harm on the corporation or the shareholders;
- (c) an unlawful distribution in violation of the standards set forth in Section 842 of the Act as referenced in Section 3.18 of these bylaws;
- (d) an intentional violation of criminal law; or
- (e) liability for any act or omission occurring prior to the date such a provision becomes effective.

Section 3.18 Liability for Unlawful Distributions. A director who votes for or assents to a distribution made in violation of the requirements of Section 640 of the Act or the articles of incorporation, and who does not discharge such duties in compliance with the standards of conduct set forth in Section 840 of the Act, is personally liable to the corporation for the amount by which the distribution exceeds the amount that could have been properly distributed, as provided in Section 842 of the Act.

Section 3.19 Conflicting Interest Transactions. Transactions in which a director has a conflicting interest will be handled in accordance with Sections 850 to 853 of the Act. In accordance with such sections, each director's conflicting interest transaction as defined therein, which has not otherwise been established to be fair to the corporation, is to be presented to the shareholders for approval in accordance with Section 853 of the Act, or approved by the directors in compliance with the requirements of Section 852 of the Act.

Directors may take action with respect to a director's conflicting interest transaction by the affirmative vote of a majority of those "qualified directors" (defined in Section 850 of the Act as essentially those directors without conflicting interests with respect to the transaction) on the board of directors or on a duly empowered and constituted committee of the board who voted on the transaction after receipt of the required disclosures (as defined in Sections 850 and 852(2) of the Act). For purposes of such action, a majority of the qualified directors on the board or on the committee, as the case may be, constitutes a quorum. Such action is not affected by the presence or vote of a director who is not a qualified director.

ARTICLE IV

Officers

Section 4.01 Number and Qualifications. The officers of the corporation shall be a president, a secretary, a treasurer, each of whom shall be appointed by the board of directors. The corporation may also have such other officers and assistant officers as the board of directors in its discretion may determine, by resolution, to be appropriate, including a chairman of the board, one or more vice-presidents, a controller, assistant secretaries and assistant treasurers. All such officers shall be appointed by the board of directors, except that if specifically authorized by the board of directors, an officer may appoint one or more officers or assistant officers. The same individual may simultaneously hold more than one office in the corporation.

Section 4.02 Appointment and Term of Office. The officers of the corporation shall be appointed by the board of directors (or, to the extent permitted by Section 4.01 above, by an officer specifically authorized by the board to make such appointments), for such terms as may be determined by the board of directors. Neither the appointment of an officer nor the designation of a specified term creates or grants to the officer any contract rights, and the board can remove the officer at any time prior to the termination of any term for which the officer may have been appointed. If no other term is specified, officers shall hold office until they resign, die, or until they are removed or replaced in the manner provided in Section 4.03 below, or Section 832 of the Act.

Section 4.03 Removal and Resignation of Officers. Any officer or agent of the corporation may be removed or replaced by the board of directors at any time with or without cause. The election of a replacement officer shall constitute the removal of the person previously holding such office. An officer may resign at any time by giving written notice of the resignation to the corporation. Resignations shall become effective as provided in Section 832 of the Act. An officer's resignation or removal does not affect the contract rights of the parties, if any

Section 4.04 Authority and Duties. The officers of the corporation shall have the authority and perform the duties specified below and as may be additionally specified by the president, the board of directors or these bylaws (and in all cases where the duties of any officer are not prescribed by these bylaws or by the board of directors, such officer shall follow the orders and instructions of the president), except that in any event each officer shall exercise such powers and perform such duties as may be required by law:

(a) President. The president shall, subject to the direction and supervision of the board of directors, (i) be the chief executive officer of the corporation and have general and active control of its affairs and business and general supervision of its officers, agents and employees; (ii) unless there is a chairman of the board, preside at all meetings of the shareholders and the board of directors; (iii) see that all orders and resolutions of the board of directors are carried into effect; and (iv) perform all other duties incident to the office of president and as from time to time may be assigned to the president by the board of directors. The president may sign, with the secretary or any other proper officer of the corporation authorized to take such action, certificates for shares of the corporation. The president may also sign, subject to such restrictions and limitations as may be imposed from time to time by the board of directors, deeds, mortgages, bonds, contracts or other instruments which have been duly approved for execution.

(b) Vice-Presidents. The vice-president, if any (or if there is more than one then each vice-president), shall assist the president and shall perform such duties as may be assigned by the president or by the board of directors. The vice-president, if there is one (or if there is more than one then the vice-president designated by the board of directors, or if there be no such designation then the vice-presidents in order of their election), shall, at the request of the president, or in the event of the president's absence or inability or refusal to act, perform the duties of the president and when so acting shall have all the powers of and be subject to all the restrictions upon the president. Any vice-president may sign, with the secretary or an assistant secretary, certificates for shares of the corporation the issuance of which have been authorized by resolution of the board of directors. Vice-presidents shall perform such other duties as from time to time may be assigned to them by the president or by the board of directors. Assistant vice-presidents, if any, shall have such powers and perform such duties as may be assigned to them by the president or by the board of directors.

(c) Secretary. The secretary shall: (i) have responsibility for the preparation and maintenance of minutes of the proceedings of the shareholders and of the board of directors; (ii) have responsibility for the preparation and maintenance of the other records and information required to be kept by the corporation under Section 1601 of the Act and Section 2.17 of these bylaws; (iii) see that all notices are duly given in accordance with the provisions of these bylaws or as required by the Act or other applicable law; (iv) be custodian of the corporate records and of any seal of the corporation; (v) when requested or required, authenticate any records of the corporation; (vi) keep a register of the post office address of each shareholder which shall be furnished to the secretary by such shareholder; (vii) sign with the president, or a vice-president, certificates for shares of the corporation, the issuance of which shall have been authorized by resolution of the board of directors; (viii) have general charge of the stock transfer books of the corporation, unless the corporation has a transfer agent; and (ix) in general perform all duties incident to the office of secretary, including those identified in the Act, and such other duties as from time to time may be assigned to the secretary by the president or the board of directors. Assistant secretaries, if any, shall have the same duties and powers, subject to supervision by the secretary.

(d) Treasurer. The treasurer shall: (i) have responsibility for the care and custody of all its funds, securities, evidences of indebtedness and other personal property and deposit and handle the same in accordance with instructions of the board of directors; (ii) receive and give receipts and acquittances for moneys paid in on account of the corporation, and pay out of funds on hand all bills, payrolls and other just debts of the corporation of whatever nature upon maturity; (iii) unless there is a controller, prescribe and maintain the methods and systems of accounting to be followed, keep complete books and records of account, prepare and file all local, state and federal tax returns, prescribe and maintain an adequate system of internal audit and prepare and furnish to the president and the board of directors statements of account showing the financial position of the corporation and the results of its operations; (iv) upon request of the board, make such reports to it as may be required at any time; and (v) perform all other duties incident to the office of treasurer and such other duties as from time to time may be assigned by the board of directors or the president. Assistant treasurers, if any, shall have the same powers and duties, subject to supervision by the treasurer.

Section 4.05 Surety Bonds. The board of directors may require any officer or agent of the corporation to provide to the corporation a bond, in such sums and with such sureties as may be satisfactory to the board, conditioned upon the faithful performance of such individual's duties and for the restoration to the corporation of all books, papers, vouchers, money, securities and other property of whatever kind in such officer's possession or under such officer's control belonging to the corporation.

Section 4.06 Compensation. Officers shall receive such compensation for their services as may be authorized or ratified by the board of directors (by a vote meeting the requirements of paragraph 3.11 above) and no officer shall be prevented from receiving compensation by reason of the fact that such officer is also a director of the corporation. Appointment as an officer shall not of itself create a contract or other right to compensation for services performed as such officer.

ARTICLE V

Standards of Conduct for Officers and Directors

Section 5.01 Standards of Conduct. Each director is required to discharge his or her duties as a director, including duties as a member of a committee, and each officer with discretionary authority is required to discharge his or her duties under that authority, in a manner consistent with the following standards of conduct:

- (a) in good faith;
- (b) with the care an ordinarily prudent person in a like position would exercise under similar circumstances; and
- (c) in a manner the director or officer reasonably believes is in the best interests of the corporation.

Section 5.02 Reliance on Information and Reports. In discharging his or her duties, a director or officer is entitled to rely on information, opinions, reports, or statements, including financial statements and other financial data, if prepared or presented by:

- (a) one or more officers or employees of the corporation, or of any other corporation of which the corporation owns at least 50% of the outstanding shares of stock, whom the director or officer reasonably believes to be reliable and competent in the matters presented;
- (b) legal counsel, public accountants, or other persons as to matters the director or officer reasonably believes are within the person's professional or expert competence; or
- (c) in the case of a director, a committee of the board of directors of which such director is not a member, if the director reasonably believes the committee merits confidence.

A director or officer is not acting in good faith in relying on any such information, opinions, reports or statements if such director or officer has knowledge concerning the matter in question that makes reliance otherwise permitted as set forth above unwarranted.

Section 5.03 Limitation on Liability. A director or officer is not liable for any action taken, or any failure to take any action as an officer or director, as the case may be, if the duties of the office have been performed in compliance with the provisions of this Article V, and Section 840 of the Act.

ARTICLE VI

Indemnification

Section 6.01 Indemnification of Directors.

(a) Permitted Indemnification. Pursuant to Section 902 of the Act, unless otherwise provided in the articles of incorporation as permitted by Section 909 of the Act, the corporation may indemnify any individual made a party to a proceeding because such individual is or was a director of the corporation, against liability incurred in the proceeding if the corporation has authorized the payment in accordance with Section 906 of the Act and a determination has been made in accordance with the procedures set forth in Section 906(2) of the Act that the director has met the applicable standards of conduct as set forth below:

- (i) the individual's conduct was in good faith; and
- (ii) the individual reasonably believed that his or her conduct was in, or not opposed to, the corporation's best interests; and
- (iii) in the case of any criminal proceeding, the individual had no reasonable cause to believe his or her conduct was unlawful.

(b) Limitation on Permitted Indemnification. The corporation shall not indemnify a director under Section 6.01(a) above:

(i) in connection with a proceeding by or in the right of the corporation in which the director was adjudged liable to the corporation; or

(ii) in connection with any other proceeding charging that the director derived an improper personal benefit, whether or not involving action in the director's official capacity, in which proceeding the director was adjudged liable on the basis that the director derived an improper personal benefit.

(c) Indemnification in Derivative Actions Limited. Indemnification permitted under Section 6.01(a) and Section 902 of the Act in connection with a proceeding by or in the right of the corporation is limited to reasonable expenses incurred in connection with the proceeding.

(d) Mandatory Indemnification. As set forth in Section 903 of the Act, unless limited by its articles of incorporation, a corporation shall indemnify a director who was successful, on the merits or otherwise, in the defense of any proceeding, or in the defense of any claim, issue, or matter in the proceeding, to which the director was a party because the director is or was a director of the corporation, against reasonable expenses incurred by the director in connection with the proceeding or claim with respect to which the director has been successful.

Section 6.02 Advance Expenses for Directors. Pursuant to the provisions of Section 904 of the Act, if a determination is made, following the procedures of Section 906 of the Act, that a director has met the following requirements; and if an authorization of payment is made, following the procedures and standards set forth in Section 906 of the Act, then unless otherwise provided in the articles of incorporation, the corporation may pay for or reimburse the reasonable expenses incurred by a director who is a party to a proceeding in advance of final disposition of the proceeding, if:

(a) the director furnishes the corporation a written affirmation of the director's good faith belief that the director has met the applicable standard of conduct described in Section 902 of the Act;

(b) the director furnishes to the corporation a written undertaking, executed personally or on such director's behalf, to repay the advance if it is ultimately determined that the director did not meet the standard of conduct; and

(c) a determination is made that the facts then known to those making the determination would not preclude indemnification under Sections 901 through 909 of the Act.

Section 6.03 Indemnification of Officers, Employees, Fiduciaries, and Agents. Unless otherwise provided in the articles of incorporation, and pursuant to Section 907 of the Act:

(a) an officer of the corporation is entitled to mandatory indemnification under Section 903 of the Act, and is entitled to apply for court-ordered indemnification under Section 905 of the Act, in each case to the same extent as a director;

(b) the corporation may indemnify and advance expenses to an officer, employee, fiduciary, or agent of the corporation to the same extent as to a director; and

(c) the corporation may also indemnify and advance expenses to an officer, employee, fiduciary, or agent who is not a director to a greater extent, if not inconsistent with public policy, and if provided for by its articles of incorporation, these bylaws, action of the board of directors, or contract.

Section 6.04 Insurance. The corporation may purchase and maintain liability insurance on behalf of a person who is or was a director, officer, employee, fiduciary, or agent of the corporation, or who, while serving as a director, officer, employee, fiduciary, or agent of the corporation, is or was serving at the request of the corporation as a director, officer, partner, trustee, employee, fiduciary, or agent of another foreign or domestic corporation or other person, or of an employee benefit plan, against liability asserted against or incurred by such person in that capacity or arising from such person's status as a director, officer, employee, fiduciary, or agent, whether or not the corporation would have power to indemnify such person against the same liability under Article VI of these bylaws or Sections 902, 903 or 907 of the Act. Insurance may be procured from any insurance company designated by the board of directors, whether the insurance company is formed under the laws of this state or any other jurisdiction, including any insurance company in which the corporation has an equity or any other interest through stock ownership or otherwise.

Section 6.05 Scope of Indemnification. The indemnification and advancement of expenses authorized by this Article VI is intended to permit the corporation to indemnify to the fullest extent permitted by the laws of the State of Utah any and all persons whom it shall have power to indemnify under such laws from and against any and all of the expenses, disabilities, or other matters referred to in or covered by such laws. Any indemnification or advancement of expenses hereunder, unless otherwise provided when the indemnification or advancement of expenses is authorized or ratified, is intended to be applicable to acts or omissions that occurred prior to the adoption of this Article VI, shall continue as to any party during the period such party serves in any one or more of the capacities covered by this Article VI, shall continue thereafter so long as the party may be subject to any possible proceeding by reason of the fact that such party served in any one or more of the capacities covered by this Article VI, and shall inure to the benefit of the estate and personal representatives of such person. Any repeal or modification of this Article VI or of any Section or provision hereof shall not affect any rights or obligations then existing. All rights to indemnification under this Article VI shall be deemed to be provided by a contract between the corporation and each party covered hereby.

Section 6.06 Other Rights and Remedies. The rights to indemnification and advancement of expenses provided in this Article VI shall be in addition to any other rights which a party may have or hereafter acquire under any applicable law, contract, order, or otherwise.

Section 6.07 Severability. If any provision of this Article VI shall be held to be invalid, illegal or unenforceable for any reason, the remaining provisions of this Article VI shall not be affected or impaired thereby, but shall, to the fullest extent possible, be construed so as to give effect to the intent of this Article VI that each party covered hereby is entitled to the fullest protection permitted by law.

ARTICLE VII

Stock

Section 7.01 Issuance of Shares. Except to the extent any such powers may be reserved to the shareholders by the articles of incorporation, the board of directors may authorize the issuance of shares for consideration consisting of any tangible or intangible property or benefit to the corporation, including cash, promissory notes, services performed, contracts or arrangements for services to be performed, or other securities of the corporation. The terms and conditions of any tangible or intangible property or benefit to be provided in the future to the corporation, including contracts or arrangements for services to be performed, are to be set forth in writing.

Before the corporation issues shares, the board of directors must determine that the consideration received or to be received for the shares to be issued is adequate.

The board of directors may authorize a committee of the board of directors, or an officer of the corporation, to authorize or approve the issuance or sale, or contract for sale of shares, within limits specifically prescribed by the board of directors.

Section 7.02 Certificates for Shares; Shares Without Certificates.

(a) Use of Certificates. Shares of the corporation may, but need not be, represented by certificates. Unless the Act or another applicable statute expressly provides otherwise, the rights and obligations of shareholders are not affected by whether or not their shares are represented by certificates.

(b) Content of Certificates. Certificates representing shares of the corporation must, at a minimum, state on their face:

- (i) the name of the corporation, and that it is organized under the laws of Utah;
- (ii) the name of the person to whom the certificate is issued; and
- (iii) the number and class of shares and the designation of the series, if any, the certificate represents.

If the corporation is authorized to issue different classes of shares or different series within a class, the designations, preferences, limitations, and relative rights applicable to each class, the variations in preferences, limitations, and relative rights determined for each series, and the authority of the board of directors to determine variations for any existing or future class or series, must be summarized on the front or back of each certificate. Alternatively, each certificate may state conspicuously on its front or back that the corporation will furnish the shareholder such information on request in writing and without charge.

Each share certificate must be signed (either manually or by facsimile) by the president or a vice-president and by the secretary or an assistant secretary, or by any two other officers as may be designated in these bylaws or by the board of directors. Each certificate for shares is to be consecutively numbered or otherwise identified.

(c) Shares Without Certificates. Unless the articles of incorporation or these bylaws provide otherwise, the board of directors may authorize the issuance of some or all of the shares of any or all of its classes or series without certificates. Such an authorization will not affect shares already represented by certificates until they are surrendered to the corporation.

Within a reasonable time after the issuance or transfer of shares without certificates, the corporation shall send the shareholder a written statement of the information required on certificates by Subsections 625(2) and (3) of the Act, as summarized in Section 7.02(b) above.

(d) Shareholder List. The corporation shall maintain a record of the names and addresses of the persons to whom shares are issued, in a form meeting the requirements of Section 1601(3) of the Act.

(e) Transferring Certificate Shares. All certificates surrendered to the corporation for transfer shall be canceled and no new certificate shall be issued until the former certificate for a like number of shares shall have been surrendered and canceled, except that in case of a lost, destroyed, or mutilated certificate a new one may be issued therefor upon such terms and indemnity to the corporation as the board of directors may prescribe.

(f) Registration of the Transfer of Shares. Registration of the transfer of shares of the corporation shall be made only on the stock transfer books of the corporation. In order to register a transfer, the record owner shall surrender the shares to the corporation for cancellation, properly endorsed by the appropriate person or persons with reasonable assurances that the endorsements are genuine and effective. Unless the corporation has established a procedure by which a beneficial owner of shares held by a nominee is to be recognized by the corporation as the owner, the person in whose name shares stand on the books of the corporation shall be deemed by the corporation to be the owner thereof for all purposes.

Section 7.03 Restrictions on Transfer of Shares Permitted. The articles of incorporation, these bylaws, an agreement among shareholders, or an agreement between one or more shareholders and the corporation may impose restrictions on the transfer or registration of transfer of shares of the corporation. A restriction does not affect shares issued before the restriction was adopted unless the holders of the shares are parties to the restriction agreement or voted in favor of the restriction or otherwise consented to the restriction.

A restriction on the transfer or registration of transfer of shares may be authorized for any of the purposes set forth in Section 627(3) of the Act. A restriction on the transfer or registration of transfer of shares is valid and enforceable against the holder or a transferee of the holder if the restriction is authorized by this section and its existence is noted conspicuously on the front or back of the certificate, or is contained in the information statement required by Section 7.02(c) of these bylaws with regard to shares issued without certificates. Unless so noted, a restriction is not enforceable against a person without knowledge of the restriction.

Section 7.04 Acquisition of Shares by the Corporation. Subject to the limitations on distributions set forth in Section 640 of the Act and any other restrictions imposed by applicable law, the corporation may acquire its own shares, and shares so acquired constitute authorized but unissued shares.

If the articles of incorporation prohibit the reissuance of acquired shares, the number of authorized shares is reduced by the number of shares acquired by the corporation, effective upon amendment of the articles of incorporation, which amendment may be adopted by the board of directors without shareholder action, as provided in Sections 631(b) and 1002 of the Act. Articles of amendment affecting such an amendment must meet the requirements of Section 631(3) of the Act.

ARTICLE VIII

Amendments to Bylaws

Section 8.01 Authority to Amend. Subject to the provisions of Sections 2.08 and 3.11 of these bylaws, the corporation's board of directors may amend these bylaws at any time, except to the extent that the articles of incorporation, these bylaws, or the Act reserve such power exclusively to the shareholders, in whole or part. The directors may not adopt, amend or repeal a bylaw that fixes a greater quorum or voting requirement for shareholders. Any such bylaw may be adopted, amended or repealed only by the shareholders as provided in Section 8.02 below.

The corporation's shareholders may amend these bylaws at any time, subject to any limitations set forth in the Act, the Articles of Incorporation or these bylaws.

Section 8.02 Bylaw Changing Quorum or Voting Requirement for Shareholders. If and to the extent authorized by the articles of incorporation, the shareholders may adopt, amend, or repeal a bylaw that fixes a greater quorum or voting requirement for shareholders, or voting groups of shareholders, than is required by the Act. Such action is subject to Section 2.08 of these bylaws.

Section 8.03 Bylaw Changing Quorum or Voting Requirement for Directors.

(a) Amendment. A bylaw that fixes greater quorum or voting requirements for the board of directors than is required by the Act may be amended or repealed as permitted by Section 1022 of the Act and Section 3.13 of these bylaws:

(i) if originally adopted by the shareholders, only by the shareholders, unless otherwise permitted as contemplated by Subsection (b) below; or

(ii) if originally adopted by the board of directors, by the shareholders or unless otherwise provided in the articles of incorporation or these bylaws, by the board of directors.

(b) Restriction on Amendment. A bylaw adopted or amended by the shareholders that fixes a greater quorum or voting requirement for the board of directors may provide that it may be amended or repealed only by a specified vote of either the shareholders or the board of directors.

(c) Required Vote to Amend. Action by the board of directors under Subsection (a)(ii) above to amend or repeal a bylaw that changes the quorum or voting requirement for the board of directors must meet the same quorum requirement and be adopted by the same vote required to take action under the quorum and voting requirement then in effect or proposed to be adopted, whichever is greater.

ARTICLE IX

Miscellaneous

Section 9.01 Corporate Seal. The board of directors may provide for a corporate seal, to be in such a form as the directors may determine to be appropriate, and any officer of the corporation may, when and as required or as determined to be appropriate, affix or impress the seal, or a facsimile thereof, to or on any instrument or document of the corporation.

Section 9.02 Fiscal Year. The fiscal year of the corporation shall be December 31.

CERTIFICATE OF ADOPTION OF AMENDED AND RESTATED BYLAWS

OF

PACIFIC HEALTH CARE ORGANIZATION, INC.

The undersigned hereby certifies that she is the duly appointed and acting Secretary of Pacific Health Care Organization, Inc. and that the foregoing amended and restated bylaws as amended through July 31, 2025, were approved and adopted by the board of directors of the corporation on July 31, 2025, with these amended and restated bylaws becoming effective as of such date, and a record of such action is maintained in the minute book of the corporation.

Executed effective as of the 31st day of July, 2025.

/s/ Lauren Kubota

Secretary

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO EXCHANGE ACT RULE 13a-14(a)/15d-14(a)
AS ADOPTED 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: July 31, 2025

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

**CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER
PURSUANT TO EXCHANGE ACT RULE 13a-14(a)/15d-14(a)
AS ADOPTED 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: July 31, 2025

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

**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 the quarterly report on Form 10-Q of Pacific Health Care Organization, Inc. (the "Company") for the quarter ended June 30, 2025, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to 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: July 31, 2025

By: /s/ Tom Kubota

Tom Kubota
Chief Executive Officer and Principal Financial
Officer