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, 2020

☐ 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	**87-0285238**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer I.D. No.)
1201 Dove Street, Suite 300 **Newport Beach, California**	**92660**
(Address of principal executive offices)	(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 ☐	Accelerated filer ☐
Non-accelerated filer ☒	Smaller reporting company ☒
Emerging growth company ☐	

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

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

As of August 12, 2020, 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
TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION

Item 1. Financial Information

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

	June 30, 2020	December 31, 2019
ASSETS		
Current Assets		
Cash	$ 8,966,825	$ 8,104,164
Accounts receivable, net of allowance of $11,427 and $30,525	1,014,845	1,114,725
Deferred tax assets	22,819	22,819
Prepaid income tax	68,993	158,641
Receivable – other	10,400	14,900
Prepaid expenses	126,558	128,343
Total current assets	10,210,440	9,543,592
Property and Equipment, net		
Computer equipment	506,828	464,388
Furniture and fixtures	216,097	215,960
Office equipment	9,556	9,556
Total property and equipment	732,481	689,904
Less: accumulated depreciation and amortization	(597,871)	(565,277)
Net property and equipment	134,610	124,627
Operating lease right-of-use assets, net	433,481	558,945
Other assets	26,788	26,788
Total Assets	$ 10,805,319	$ 10,253,952
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts payable	$ 82,015	$ 52,275
Accrued expenses	216,439	249,904
Deferred rent expense	17,091	29,947
Dividend payable	37,000	37,000
Operating lease liabilities, current portion	250,900	266,480
Paycheck protection program loans, current portion	181,486	-
Unearned revenue	49,061	46,066
Total current liabilities	833,992	681,672
Long Term Liabilities		
Operating lease liabilities, long-term portion	182,581	292,465
Paycheck protection program loans, long-term portion	279,214	-
Total long-term liabilities	461,795	292,465
Total Liabilities	1,295,787	974,137
Commitments and Contingencies	-	-
Stockholders' Equity		
Preferred stock; 5,000,000 shares authorized at $0.001 par value of which 40,000 shares are designated as Series A preferred and 16,000 shares issued and outstanding at June 30, 2020 and December 31, 2019	$ 16	$ 16
Common stock, $0.001 par value, 800,000,000 shares authorized, 12,800,000 shares issued and outstanding at June 30, 2020 and December 31, 2019	12,800	12,800
Additional paid-in capital	416,057	416,057
Retained earnings	9,080,659	8,850,942
Total Stockholders' Equity	9,509,532	9,279,815
Total Liabilities and Stockholders' Equity	$ 10,805,319	$ 10,253,952

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

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

	For three months ended June 30, 2020	For three months ended June 30, 2019	For six months ended June 30, 2020	For six months ended June 30, 2019
Revenues				
HCO fees	$ 325,247	$ 400,840	$ 651,912	$ 771,182
MPN fees	118,317	127,113	239,066	250,978
Utilization review	251,728	286,555	547,783	579,238
Medical bill review	82,083	125,080	165,162	260,077
Medical case management	587,318	799,349	1,264,530	1,580,963
Other	101,813	76,382	150,962	156,319
Total revenues	1,466,506	1,815,319	3,019,415	3,598,757
Expenses				
Depreciation and amortization	15,363	17,989	32,594	36,873
Bad debt provision	-	-	101	-
Consulting fees	61,664	70,007	137,357	149,642
Salaries and wages	797,738	781,836	1,543,727	1,535,541
Professional fees	67,542	101,251	154,768	179,216
Insurance	88,230	86,922	183,023	160,305
Outsource service fees	137,679	136,671	243,793	261,480
Data maintenance	13,084	57,319	52,812	67,619
General and administrative	137,022	217,566	351,875	425,001
Total expenses	1,318,322	1,469,561	2,700,050	2,815,677
Income from operations	148,184	345,758	319,365	783,080
Income before taxes	148,184	345,758	319,365	783,080
Income tax provision	(41,595)	(97,054)	(89,648)	(219,813)
Net income	$ 106,589	$ 248,704	$ 229,717	$ 563,267
Basic earnings per share:				
Earnings per share amount	$ 0.01	$ 0.02	$ 0.02	$ 0.04
Weighted average common shares outstanding	12,800,000	12,800,000	12,800,000	12,800,000
Fully diluted earnings per share:				
Earnings per share amount	$ 0.01	$ 0.02	$ 0.02	$ 0.04
Weighted average common shares outstanding	12,816,000	12,816,000	12,816,000	12,816,000

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

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

	Preferred stock			Common Stock			Additional paid-in capital		Retained earnings		Total stockholder's equity
	Shares	Amount		Shares	Amount						
Balances at December 31, 2018	16,000	$	16	12,800,000	$	12,800	$	416,057	$ 7,652,882	$	8,081,755
Net Income	-		-	-		-		-	314,563		314,563
Balances at March 31, 2019	16,000	$	16	12,800,000	$	12,800	$	416,057	$ 7,967,445	$	8,396,318
Net Income	-		-	-		-		-	248,704		248,704
Balances at June 30, 2019	16,000	$	16	12,800,000	$	12,800	$	416,057	$ 8,216,149	$	8,645,022
Balances at December 31, 2019	16,000	$	16	12,800,000	$	12,800	$	416,057	$ 8,850,942	$	9,279,815
Net Income	-		-	-		-		-	123,128		123,128
Balances at March 31, 2020	16,000	$	16	12,800,000	$	12,800	$	416,057	$ 8,974,070	$	9,402,943
Net Income	-		-	-		-		-	106,589		106,589
Balances at June 30, 2020	16,000	$	16	12,800,000	$	12,800	$	416,057	$ 9,080,659	$	9,509,532

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

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

	Six Months Ended June 30, 2020	Six Months Ended June 30, 2019
Cash flows from operating activities:		
Net income	$ 229,717	$ 563,267
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	32,594	36,873
Bad debt provision	101	-
Changes in operating assets and liabilities:		
Decrease (increase) in accounts receivable	99,779	(141,062)
Decrease in prepaid expenses	1,785	52,119
Decrease (increase) in prepaid income tax	89,648	(9,287)
Decrease (increase) in receivables other	4,500	(3,751)
Increase (decrease) in accounts payable	29,740	(23,051)
(Decrease) increase in deferred rent expense	(12,856)	15,307
(Decrease) increase in accrued expenses	(33,465)	4,941
Increase in unearned revenue	2,995	-
Net cash provided by operating activities	444,538	495,356
Cash flows from investing activities:		
Purchase of furniture and office equipment	(42,577)	(15,247)
Net cash used in investing activities	(42,577)	(15,247)
Cash flows from financing activities:		
Proceeds from paycheck protection program loans	460,700	-
Net cash provided by financing activities	460,700	-
Increase in cash	862,661	480,109
Cash at beginning of period	8,104,164	7,072,507
Cash at end of period	$ 8,966,825	$ 7,552,616
Supplemental cash flow information		
Cash paid for:		
Interest	$ -	$ -
Income taxes paid	$ -	$ 229,100
Non-cash investing and financing activities		
Initial recognition of operating lease right-of-use assets and operating lease liabilities	$ -	$ 719,861

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

Pacific Health Care Organization, Inc.
Notes to Condensed Consolidated Financial Statements
For the Six Months Ended June 30, 2020
(Unaudited)

NOTE 1 - BASIS OF FINANCIAL STATEMENT PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission (the "Commission") and in accordance with accounting principles generally accepted in the United States ("GAAP"). Certain information and footnote disclosures normally included in consolidated financial statements have been condensed or omitted in accordance with GAAP rules and regulations. The information furnished in these interim condensed consolidated financial statements includes normal recurring adjustments and reflects all adjustments, which, in the opinion of management, are necessary for a fair presentation of such financial statements. The preparation of condensed consolidated financial statements in accordance with GAAP requires management to make estimates and assumptions that affect both the recorded values of assets and liabilities at the date of the condensed consolidated financial statements and the revenues recognized and expenses incurred during the reporting period. These estimates and assumptions affect the Company's recognition of deferred expenses, bad debts, income taxes, the carrying value of its long-lived assets and its provision for certain contingencies. The reasonableness of these estimates and assumptions is evaluated continually based on a combination of historical and other information that comes to the Company's attention that may vary its outlook for the future. While management believes the disclosures and information presented are adequate to make the information not misleading, the Company recommends these interim condensed consolidated financial statements be read in conjunction with its audited financial statements and notes thereto included in its annual report on Form 10-K for the year ended December 31, 2019. Operating results for the six months ended June 30, 2020, are not necessarily indicative of the results to be expected for the year ending December 31, 2020.

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

Basis of Accounting — The Company uses the accrual method of accounting.

Revenue Recognition — The Company follows the guidance of Accounting Standards Codification (ASC) 606, "Revenue from Contracts with Customers (Topic 606)."

Topic 606 creates a five-step model to recognize revenue which includes (i) identifying the contract with the customer, (ii) identifying the performance obligations in the contract, (iii) determining the transaction price, including variable consideration to the extent that it is probable that a significant future reversal will not occur, (iv) allocating the transaction price to the respective performance obligations in the contract, and (v) recognizing revenue when (or as) the Company satisfies the performance obligation.

The Company derives its revenue from the sale of managed care, bill review, utilization review and medical case management services. These services are billed individually as separate components to our customers. These fees include monthly administration fees, claim network fees, legal support fees, Medicare set-aside fees, lien service fees, workers' compensation carve-outs, flat rate fees or hourly fees depending on the agreement with the client.

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

Pacific Health Care Organization, Inc.
Notes to Condensed Consolidated Financial Statements
For the Six Months Ended June 30, 2020
(Unaudited)

Accounts Receivables and Bad Debt Allowance – In the normal course of business the Company extends credit to its customers on a short-term basis. Although the credit risk associated with these customers is minimal, the Company routinely reviews its accounts receivable balances and makes provisions for doubtful accounts. The Company ages its receivables by date of invoice. Management reviews bad debt reserves quarterly and reserves specific accounts as warranted or sets up a general reserve based on amounts over 90 days past due. When an account is deemed uncollectible, the Company charges off the receivable against the bad debt reserve. A considerable amount of judgment is required in assessing the realization of these receivables including the current creditworthiness of each customer and related aging of the past-due balances, including any billing disputes. In order to assess the collectability of these receivables, the Company performs ongoing credit evaluations of its customers' financial condition. Through these evaluations, the Company may become aware of a situation where a customer may not be able to meet its financial obligations due to deterioration of its financial viability, credit rating or bankruptcy. The allowance for doubtful accounts is based on the best information available to the Company and is reevaluated and adjusted as additional information is received. We evaluate the allowance based on historical write-off experience, the size of the individual customer balances, past-due amounts and the overall national economy. At June 30, 2020 and December 31, 2019, bad debt reserves of $11,427 and $30,525, respectively, was a general reserve for certain balances over 90 days past due and for accounts that are potentially uncollectible.

The percentages of the amounts due from major customers to total accounts receivable as of June 30, 2020 and December 31, 2019, are as follows:

	6/30/2020	12/31/2019
Customer A	21%	18%
Customer B	12%	8%

Significant Customers - We provide services to insurers, third party administrators, self-administered employers, municipalities and other industries. We are able to provide our full range of services to virtually any size employer in the state of California. We are also able to provide utilization review, medical bill review and medical case management services outside the state of California.

During the period ended June 30, 2020 and 2019, we had two customers that accounted for more than 10% of our total sales. The following table sets forth details regarding the percentage of total sales attributable to our significant customers in the past two years:

	6/30/2020	6/30/2019
Customer A	22%	29%
Customer B	13%	14%
Customer C	9%	11%

Leases - Effective January 1, 2019, the Company adopted the guidance of ASC 842, Leases, which requires an entity to recognize a right-of-use asset and a lease liability for virtually all leases. The Company adopted ASC 842 using a modified retrospective approach. The adoption of ASC 842 on January 1, 2019 resulted in the recognition of operating lease right-of-use assets of $719,861, lease liabilities for operating leases of $719,861, and a zero cumulative-effect adjustment to accumulated deficit. The Company elected to exclude from its balance sheets recognition of leases having a term of 12 months or less ("short-term leases"). Lease expense is recognized on a straight-line basis over the lease term. See Note 2 for further information regarding the impact of the adoption of ASC 842 on the Company's financial statements.

NOTE 2 - OPERATING LEASES

In July 2015, the Company entered a 79-month lease to lease approximately 9,439 square feet of office space that commenced in September 2015. This office space serves as the Company's principal executive offices, as well as, the principal offices of our operating subsidiaries. In March 2017, the Company entered a 39-month operating lease for an office copy machine with scanner with monthly payment at $1,723, commencing in April 2017 and ending in June 2020.

Pacific Health Care Organization, Inc.
Notes to Condensed Consolidated Financial Statements
For the Six Months Ended June 30, 2020
(Unaudited)

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

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

	Three Months Ended June 30, 2020	Six Months Ended June 30, 2020
Lease Cost		
Operating lease cost (included in general and administrative in the Company's condensed consolidated statement of operations)	$ 77,466	$ 153,217
Other Information		
Cash paid for amounts included in the measurement of lease liabilities for the three and six months ended June 30, 2020	$ 77,466	$ 153,217
Weighted average remaining lease term – operating leases (in years)	1.83 years	1.83 years
Average discount rate – operating leases	5.75%	5.75%

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

	At June 30, 2020
Operating leases	
Long-term right-of-use assets	$ 433,481
Short-term operating lease liabilities	$ 250,900
Long-term operating lease liabilities	182,581
Total operating lease liabilities	$ 433,481

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

Year Ending	Operating Leases
2020 (remaining 6 months)	$ 136,488
2021	257,024
2022	71,359
Total lease payments	464,871
Less: Imputed interest/present value discount	(31,390)
Present value of lease liabilities	$ 433,481

Lease expenses were $77,466 and $68,153 during the three months ended June 30, 2020 and 2019, respectively, and $153,217 and $159,820 during the six months ended June 30, 2020 and 2019, respectively.

NOTE 3 - PAYROLL PROTECTION PROGRAM LOANS

In April and May 2020 Pacific Health Care Organization, Inc. ("PHCO"), Medex Managed Care, Inc. ("MMC") and Medex Medical Management, Inc. ("MMM") received loans pursuant to the Coronavirus Aid, Relief and Economic Security ("CARES") Act Payroll Protection Program.

Pacific Health Care Organization, Inc.
Notes to Condensed Consolidated Financial Statements
For the Six Months Ended June 30, 2020
(Unaudited)

PHCO received a loan in the amount of $133,400 (the "PHCO PPP Loan") from Pacific Western Bank. The PHCO PPP Loan is in the form of a Note dated April 21, 2020, issued by PHCO, which matures on April 21, 2022. The PHCO PPP Loan bears interest at a rate of 1% per annum and is payable monthly commencing on November 21, 2020. The monthly principal payment for the PHCO PPP Loan will be $7,507.

MMM and MMC received loans of $267,700 and $59,600 respectively, from First Citizens Bank, (collectively the "Medex Companies PPP Loans"). The Medex Companies PPP Loans are also in the form of Notes dated April 30, 2020 and May 11, 2020, issued by MMM and MMC respectively, and mature on April 30, 2022 and May 11, 2022, respectively. The Medex Companies PPP Loans bear interest at a rate of 1.0% per annum and are payable monthly commencing on November 30, 2020 for the MMM loan and December 11, 2020 for the MMC loan. The combined monthly principal payments for the Medex Companies PPP Loans will be $18,419.

Funds from these loans may be used for payroll, rent, utilities and costs incurred to continue group health insurance benefits. The terms of the loans provide that certain amounts may be forgiven if the funds are used for qualifying expenses as described in the CARES Act.

NOTE 4 - SUBSEQUENT EVENTS

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

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

This quarterly report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act") and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), that are based on our management's beliefs and assumptions and on information currently available to them. For this purpose, any statement contained in this report that is not a statement of historical fact may be deemed to be forward-looking, including statements about our revenue, spending, cash flow, products, new customer acquisitions, trends, actions, intentions, plans, strategies and objectives. Without limiting the foregoing, words such as "may," "hope," "will," "expect," "believe," "anticipate," "estimate," "project," "intend," "budget," "plan," "forecast," "predict," "could," "should," or "continue" or comparable terminology are intended to identify forward-looking statements. These statements by their nature involve substantial risk and uncertainty, and actual results may differ materially depending on a variety of factors, many of which are not within our control. These factors include but are not limited to economic conditions generally and in the industry in which we and our customers participate; the impacts of the COVID-19 pandemic and our ability to react to those impacts; cost reduction efforts by our existing and prospective customers; competition within our industry, including competition from much larger competitors; business combinations; legislative requirements or changes which could render our services less competitive or obsolete; our failure to successfully develop new services, and/or products or to anticipate current or prospective customers' needs; our ability to retain existing customers and to attract new customers; price increases; employee limitations; and delays, reductions, or cancellations of contracts we have previously entered.

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

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

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

Overview

We incorporated under the laws of the state of Utah in April 1970, under the name Clear Air, Inc. We changed our name to Pacific Health Care Organization, Inc., in January 2001. In February 2001, we acquired Medex Healthcare, Inc. ("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 Managed Provider Networks ("MPNs") in the state of California. In August 2001, we formed Industrial Resolutions Coalition, Inc. ("IRC"), a California corporation, as a wholly-owned subsidiary of PHCO. IRC oversees and manages the Company's Workers' Compensation Carve-Outs services. In June 2010, we acquired Medex Legal Support, Inc. ("MLS"), a Nevada corporation incorporated in September 2009. MLS offers lien representation services and Medicare Set-Aside ("MSA") services. In February 2012, we incorporated Medex Medical Management, Inc., ("MMM") in the state of Nevada, as a wholly owned subsidiary of the Company. MMM is responsible for overseeing and managing medical case management services. In March 2011, we incorporated Medex Managed Care, Inc. ("MMC") in the state of Nevada, as a wholly owned subsidiary of the Company. MMC oversees and manages the Company's utilization review and managed bill review services. In October 2018, we incorporated Pacific Medical Holding Company, Inc. ("PMHC") to act as a holding company for future potential acquisitions.

Business of the Company

We are workers' compensation cost containment specialists providing a range of services principally to California employers and claims administrators. Our business objective is to deliver value to our clients that reduces their workers' compensation related medical claims expense in a manner that will assure that injured employees receive high quality healthcare that allows them to recover from injury and return to gainful employment without undue delay. According to studies conducted by auditing bodies on behalf of the California Division of Workers' Compensation, ("DWC") the two most significant cost drivers for workers' compensation are claims frequency and medical treatment costs.

Our clients include self-administered employers, insurers, third party administrators, municipalities and others. Our principal clients are in the State of California where the high cost of workers' compensation insurance is a critical problem for employers. We have processed medical bill reviews in 25 states. Our provider networks are composed of experts in treating worker injuries.

Impact of COVID-19 on our Business

In late 2019 the novel coronavirus, COVID-19, was identified. By February 2020, the virus had spread to many countries around the world, including the United States. By late February, authorities in the United States began advising American businesses to prepare for the effects of the outbreak. On March 19, 2020, the governor of California issued a stay-at-home order except for essential services, such as grocery stores, gas stations and banks. In mid-March 2020 we implemented our disaster recovery and business plan addressing how our business operations would be performed by our employees working remotely. As a result, since that time, nearly 100% of our employees have been working remotely and performing approximately 95% of our typical business functions, with the primary exceptions being certain manual, non-critical functions.

Even though we have been able to transition our work force and work flow to address the restrictions designed to "flatten the curve" of the COVID-19 pandemic, the extent of the long-term adverse effect of the COVID-19 pandemic on the economy, our industry and our results of operations and financial condition is unknown and largely dependent on future developments, most of which, including the severity and duration of this pandemic, are beyond our control.

Revenue for our services is derived from our employer customers' employee counts and workers' workplace injuries. Several of our employer customers, including some of our largest customers, have had to suspend or significantly modify their operations during the stay-at-home order issued by the governor of California.

The state orders have been modified to allow some categories of businesses to re-open under COVID-19 restrictions, while others, such as bars and restaurants, have been under various orders that have forced closures and re-openings several times. As of August 13, 2020, most client businesses are allowed to operate under COVID-19 restrictions but are continuing to experience drops in business volume and employee counts due to the pandemic.

The governor of California issued an executive order declaring that any employee who becomes ill with COVID-19 was presumed to have contracted the disease in the workplace if the worker worked onsite any time during the fourteen-day period prior to the onset of the illness. The presumption is rebuttable by the employer with sufficient evidence discovered within 30 days, but in many cases places the burden of medical care for COVID-19 cases on employers. The executive order was valid through July 5, 2020. A new California bill is being considered to address employer liability in Workers' Compensation for COVID-19 cases contracted after the expiration of the Governor's executive order. The bill is likely to include a requirement that a certain percentage of the employer's workers be confirmed to have contracted the coronavirus before a rebuttable presumption of industrial origin is applied to individual cases, which may impact the extent to which Workers' Compensation is used to address its treatment in California.

The Actuary Committee of the California Workers' Compensation Insurance Rating Bureau is presently attempting to assess the impact of the COVID-19 pandemic on future claims frequency and costs in relation to historically traditional claims frequency during times of severe economic downturn. They are especially focused on post-termination claims, work-at-home arrangements, and the COVID-19 presumption.

For the first two and one-half months of the quarter ended March 31, 2020, the COVID-19 outbreak did not have a significant impact on our business. We began to experience some slowdown in claims in the last two weeks of March, which has continued into the second quarter of 2020. At this time, however, we cannot predict if, how or when our employer customers will be allowed to reopen/ramp up their operations, and when reopened/ramped up, whether those operations, employee counts and workplace injuries will be the same or less than they were before the outbreak of the COVID-19 pandemic. We anticipate that reductions in employee counts and workplace injuries will negatively impact our revenues and have an adverse impact on our results of operations and liquidity position.

On April 21, MEDEX was granted a Payroll Protection Program ("PPP") loan for parent company Pacific Health Care Organization in an amount of $133,400. On April 30, 2020 and May 11, 2020 subsidiaries MMM and MMC were granted PPP loans of $267,700 and $59,600, respectively. Given the swiftly changing federal and financial policies surrounding the standards for loan payback and forgiveness, we are still analyzing use of the loan for payroll purposes. In the spirit of the PPP loan program policy of protecting the continued economic stability of employees, MEDEX did not consider executing a reduction in staff levels or hours until the PPP loan amounts had been expended in the intended manner.

In late June 2020, the reduction in volume in some areas of our business became clear as a trend. As a result, and after attempts to cut expenses in other areas, it became necessary to institute a business restructuring that included a reduction in force. After conducting an analysis of departmental demand, departmental function, projected business needs, and personnel, we laid off four employees on July 16, 2020.

While we have taken steps to render our business functions remotely, to deploy these measures effectively, and to do our best to ensure data security, there is no guarantee the measures we have taken will be completely effective, that our productivity will not be adversely impacted, or that we will not encounter some of the common risks associated with a remote workforce, including employees accessing company data and systems remotely. As discussed in greater detail in *Item 1A Risk Factors* of our Annual Report on Form 10-K, our business could be materially and adversely affected by the potential interruptions to our business operations arising from the COVID-19 outbreak.

In addressing the risk of COVID-19 cases and Workers' Compensation claims within the Company, we have also implemented onsite measures recommended by national, state, and local health authorities to reduce the chances of transmission among our employees. These measures include an office reopening plan, phased policy measures based on local and state orders and our own risk assessment, compliance with ventilation and other building-level recommendations as made possible by the building owner, physical barriers and signage, limited onsite presence, pre-shift symptom screening, and other measures that as of the date of this report are recommended to reduce the risk of transmission of COVID-19 in office spaces.

Results of Operations

Comparison of the three months ended June 30, 2020 and 2019

The following represents selected components of our consolidated results of operations, for the three-month periods ended June 30, 2020 and 2019, respectively, together with changes from period-to-period:

	For three months ended June 30,			
	2020	**2019**	**Amount Change**	**% Change**
Revenues:				
HCO fees	$ 325,247	$ 400,840	$ (75,593)	(19%)
MPN fees	118,317	127,113	(8,796)	(7%)
Utilization review	251,728	286,555	(34,827)	(12%)
Medical bill review	82,083	125,080	(42,997)	(34%)
Medical case management	587,318	799,349	(212,031)	(27%)
Other	101,813	76,382	25,431	33%
Total revenues	1,466,506	1,815,319	(348,813)	(19%)
Expense:				
Depreciation and amortization	15,363	17,989	(2,626)	(15%)
Consulting fees	61,664	70,007	(8,343)	(12%)
Salaries and wages	797,738	781,836	15,902	2%
Professional fees	67,542	101,251	(33,709)	(33%)
Insurance	88,230	86,922	1,308	2%
Outsource service fees	137,679	136,671	1,008	1%
Data maintenance	13,084	57,319	(44,235)	(77%)
General and administrative	137,022	217,566	(80,544)	(37%)
Total expenses	1,318,322	1,469,561	(151,239)	(10%)
Income from operations	148,184	345,758	(197,574)	(57%)
Income before taxes	148,184	345,758	(197,574)	(57%)
Income tax provision	(41,595)	(97,054)	55,459	(57%)
Net income	$ 106,589	$ 248,704	$ (142,115)	(57%)

Revenue

Total revenues during the three-month periods ended June 30, 2020 and 2019 decreased 19% to $1,466,506 from $1,815,319.

During the second quarter 2020, other fees increased 33%, while HCO, MPN, utilization review, medical bill review and medical case management fees decreased by 19%, 7%, 12%, 34%, and 27%, respectively. Other revenues consisted of revenues derived primarily from network access, claims repricing services, lien representation services, legal support services, workers' compensation carve-out revenues and Medicare set-aside revenues.

In the second quarter of 2020, the State mandated stay-at home orders prompted many of our customers' to temporarily close their workplaces. Employers that stayed open, did so with a reduction in employees. We generate our revenues on employee counts, workplace injuries and medical provider care and the stay-at-home orders directly impacted our revenues.

HCO Fees

During the three-month periods ended June 30, 2020 and 2019, HCO fee revenues were $325,247 and $400,840, respectively. The decrease was due to the loss of a customer and due to COVID-19 workplace restrictions that caused customers' workplace closures and restructuring of customers' workforces. As a result, fees generated to enroll employees into our HCO networks, monthly HCO program administration fees, and claim network fees for workplace injuries decreased, partially offset by an increase in revenue from an existing customer adding a custom provider network. HCO revenue is generated largely from fees charged to our employer customers for access to our HCO networks, per claim fees, notification fees and fees for other ancillary services the employer customers using our HCO networks may select. HCO notifications are mailed out annually and handed out by the employer for all new hires during the month. We prepare the mailings no earlier than three months prior to the end of the previous year's enrollment so that our employers are able to prepare their employee rosters. Delays in the employer providing accurate and timely employee rosters can delay the notification process causing changes to when we record the revenues.

MPN Fees

MPN fee revenue for the three-month periods ended June 30, 2020 and 2019, were $118,317 and $127,113, respectively, a decrease of 7%. The State mandated stay-at-home orders resulted in fewer claim network fees for reported workplace injuries because customers' workplace locations were closed. Like HCO revenue, MPN revenue is generated largely from fees charged to our employer customers for access to our MPN networks, per claim fees and fees for other ancillary services the employer customers using our MPN networks may select.

Utilization Review

During the three-month periods ended June 30, 2020 and 2019, utilization review revenue was $251,728 and $286,555, respectively. The decrease of $34,827 in the 2020 period was due to a decrease in utilization reviews submitted by medical providers because non-essential medical visits were halted due to COVID-19 concerns and the loss of a customer in the second quarter of 2020; partially offset by three existing customers adding utilization review in 2020. Our employer customers retain us to review proposals for treatment. Utilization review can provide a safeguard against unnecessary and inappropriate medical treatment from the perspective of medical necessity, quality of care, and appropriateness of decision-making.

Medical Bill Review

During the three-month period ended June 30, 2020, medical bill review revenue decreased by $42,997, when compared to the same period a year earlier. The decreases were due to the loss of a customer and a decrease in hospital and medical bills reviewed due to fewer medical visits during the COVID-19 stay-at-home orders. Medical bill review involves analyzing medical provider services and equipment billing to ascertain proper reimbursement. Such services include, but are not limited to, coding review and rebundling, confirming that the services are customary and reasonable, fee schedule compliance, out-of-network bill review, pharmacy review, and preferred provider organization repricing arrangements. These services can result in significant network savings.

Medical Case Management

During the three-month periods ended June 30, 2020 and 2019, medical case management revenue was $587,318 and $799,349, respectively. The decrease in medical case management revenue of $212,031 was due to a decrease in the number of claims managed with existing customers, coupled with fewer billable hours because of temporary closures of medical offices for non-emergency and non-essential services due to COVID-19 stay-at-home orders, partially offset by increases in medical case management for existing customers to oversee COVID-19 workplace illnesses and two existing customers adding the service. Medical case management keeps medical treatment claims progressing to a resolution and assures treatment plans are aligned from a medical perspective. Medical oversight is a collaborative process that assesses plans, implements, coordinates, monitors and evaluates the options and services required to meet an injured worker's health needs. Medical case managers act as an ombudsperson between the injured worker, claims adjuster, medical providers and attorneys to achieve optimal results for injured workers and employer/clients.

Other

Other fees consist of revenue derived from network access, lien representation, legal support services, Medicare set-aside and workers' compensation carve-out services. Other revenue for three-month periods ended June 30, 2020 and 2019, were $101,813 and $76,382 respectively. The increase in other fees of 33% was the result of increases in Medicare set-aside claims processed, partially offset by a customer's decrease in utilizing our provider network, thus reducing the revenue from network access fees.

Expenses

Total expenses for the three months ended June 30, 2020 and 2019, were $1,318,322 and $1,469,561, respectively. The 10% decrease in expenses was the result of decreases in depreciation and amortization, consulting fees, professional fees, data maintenance, and general and administrative, which were partially offset by increases in salaries and wages, insurance, and outsource service fees.

Depreciation and Amortization

During the three-month period ended June 30, 2020, we recorded depreciation and amortization expense of $15,363 compared to $17,989 during the comparable 2019 period. The decrease in depreciation and amortization was primarily attributable to certain fixed assets being fully depreciated during the three months ended June 30, 2020, partially offset by the purchasing of new fixed assets.

Consulting Fees

During the three months ended June 30, 2020, consulting fees decreased to $61,664 from $70,007 compared to the three months ended June 30, 2019. The 12% decrease was the result of fewer consultant fees to assist with our insurance company acquisition search.

Salaries and Wages

During the three-month period ended June 30, 2020, salaries and wages increased 2% to $797,738 when compared to the same period in 2019. This increase was the result of increases in salaries to retain employees.

Professional Fees

For the three months ended June 30, 2020, professional fees decreased by 33% to $67,542 from $101,251 when compared to the three months ended June 30, 2019. The decrease in professional fees was the result of a decreases in accounting, legal expenses and medical case management fees and other professional fees.

Insurance

During the three-month period ended June 30, 2020, we incurred insurance expenses of $88,230, a 2% increase over the same three-month period in 2019. The increase in insurance expense was primarily attributed to the increases in medical insurance costs for employees for the three-month period 2020 compared to the same period 2019.

Outsource Service Fees

Outsource service fees consist of costs incurred by our subsidiaries in outsourcing some functions of utilization review, medical bill review, Medicare set-aside services and field case management and typically tends to increase and decrease in correspondence with increases and decreases in demand for those services. We incurred $137,679 and $136,671 in outsource service fees during the three-month periods ended June 2020 and 2019, respectively. The increase of 1% was an increase in volume from our customers that required outsource services for Medicare-set-asides partially offset decreases by due to the loss of a utilization review customer in the second quarter and fewer field case management services due to COVID-19 social distancing requirements.

Data Maintenance

During the three-month periods ended June 30, 2020 and 2019, data maintenance fees were $13,084 and $57,319, respectively. The decrease of $44,235 was primarily the result of a customer's HCO annual renotification processed in the first quarter of 2020 compared to the second quarter of 2019 coupled with fewer new hire notifications because of customers' temporary workplace closures due to COVID-19 during the three-month period ended June 30, 2020 when compared to the same period in 2019.

General and Administrative

During the three-month period ended June 30, 2020, general and administrative expenses decreased 37% to $137,022 when compared to the three-month period ended June 30, 2019. This decrease of $80,544 was primarily attributable to decreases in advertising, auto expenses, dues and subscriptions, IT enhancement, licenses and permits, office supplies, parking, paid time off, meals and travel expenses and other miscellaneous expenses, partially offset by increases in rent expense - equipment, telephone and rent expenses - office. These changes in general and administrative expenses were largely the result of COVID-19-related changes to how we conducted business during the quarter ended June 30, 2020.

Income from Operations

As a result of the $348,813 decrease in total revenue during the three-month period ended June 30, 2020, and the $151,239 decrease in total expenses during the same period, our income from operations decreased $197,574, or 57%, during the three-month period ended June 30, 2020, when compared to the same period in 2019.

Income Tax Provision

We realized a $55,459, or 57%, decrease in our income tax provision during the three-month period ended June 30, 2020, compared to the three-month period ended June 30, 2019 because of the decrease in net income realized in the 2020 period.

Net Income

During the three-month period ended June 30, 2020, we realized a 19% decrease in total revenues which was only partially offset by a 10% decrease in total expenses and a 57% decrease in our provision for income tax when compared to the same period in 2019. As a result, we realized a net decrease of $142,115, or 57%, in net income during the three-month period ended June 30, 2020 compared to the three-month period ended June 30, 2019.

Comparison of six months ended June 30, 2020 and 2019

The following represents selected components of our consolidated results of operations, for the six-month periods ended June 30, 2020 and 2019, respectively, together with changes from period-to-period:

	For six months ended June 30, 2020	For six months ended June 30, 2019	Amount Change	% Change
Revenues:				
HCO fees	$ 651,912	$ 771,182	$ (119,270)	(15%)
MPN fees	239,066	250,978	(11,912)	(5%)
Utilization review	547,783	579,238	(31,455)	(5%)
Medical bill review	165,162	260,077	(94,915)	(36%)
Medical case management	1,264,530	1,580,963	(316,433)	(20%)
Other	150,962	156,319	(5,357)	(3%)
Total revenues	3,019,415	3,598,757	(579,342)	(16%)
Expense:				
Depreciation and amortization	32,594	36,873	(4,279)	(12%)
Bad debt provision	101	-	101	-%
Consulting fees	137,357	149,642	(12,285)	(8%)
Salaries and wages	1,543,727	1,535,541	8,186	1%
Professional fees	154,768	179,216	(24,448)	(14%)
Insurance	183,023	160,305	22,718	14%
Outsource service fees	243,793	261,480	(17,687)	(7%)
Data maintenance	52,812	67,619	(14,807)	(22%)
General and administrative	351,875	425,001	(73,126)	(17%)
Total expenses	2,700,050	2,815,677	(115,627)	(4%)
Income from operations	319,365	783,080	(463,715)	(59%)
Income before taxes	319,365	783,080	(463,715)	(59%)
Income tax provision	(89,648)	(219,813)	130,165	(59%)
Net income	$ 229,717	$ 563,267	$ (333,550)	(59%)

Revenue

Total revenues during the six-month period ended June 30, 2020, decreased 16% to $3,019,415 compared to $3,598,757 during the six-month period ended June 30, 2019.

During the first six months of 2020, HCO, MPN, utilization review, medical bill review, medical case management and other fees decreased 15%, 5%, 5%, 36%, 20%, and 3% respectively. Other revenues consisted of revenues derived primarily from network claims repricing services, lien representation services, legal support services, workers' compensation carve-out revenues and Medicare set-aside revenues.

HCO Fees

During the six-month periods ended June 30, 2020 and 2019, HCO fee revenues were $651,912 and $771,182 respectively. The 15% decrease in HCO revenue was primarily attributable to the loss of three customers, a decrease in the number of HCO notifications for existing customers due to employee reductions made by our customers in the first quarter, coupled with customers' reducing their workforce and fewer workplace injuries during the stay-at-home orders, and revenue from HCO employee notifications that was recognized in the first quarter in 2019 being shifted to the second quarter in 2020. These decreases were partially offset by an increase in the number of claims, renegotiation of certain deliverables to an existing customer and the addition of a new customer in the first quarter of 2020.

MPN Fees

MPN fee revenue for the six-month periods ended June 30, 2020 and 2019, was $239,066 and $250,978 respectively, a decrease of 5%, due to fewer claims reported by customers in the first quarter and fewer claim network fees for reported workplace injuries because customers' workplace locations were closed due to COVID-19 stay-at-home orders.

Utilization Review

During the six-month periods ended June 30, 2020 and 2019, utilization review revenue was $547,783 and $579,238, respectively. The decrease of 5% in the 2020 period was primarily attributable to decreased utilization reviews from the loss of two customers and a decrease in utilization reviews submitted by medical providers because non-essential and non-emergency medical visits were halted due to COVID-19 stay-at-home orders; partially offset by three existing customers adding utilization review in 2020.

Medical Bill Review

During the six-month period ended June 30, 2020, medical bill review revenue decreased by $94,915 from $260,077 when compared to the same period a year earlier. This 36% decrease was due to the loss of two customers, a completion of a project of a backlog of bills from an existing customer in the 2019 period, and a decrease in hospital bills and non-hospital bills reviewed due to fewer medical visits during the COVID-19 stay-at-home orders in the second quarter of 2020.

Medical Case Management

During the six months ended June 30, 2020 and 2019, medical case management revenue was $1,264,530 and $1,580,963, respectively. The 20% decrease in medical case management revenue of was the result of a decrease in the number of claims managed with existing customers, coupled with fewer billable hours because of temporary closures of medical offices due to COVID-19 stay-at-home orders, partially offset by increases in medical case management for existing customers to oversee COVID-19 workplace illnesses and two existing customers adding medical case management services.

Other

Other revenue for six-month periods ended June 30, 2020 and 2019, was $150,962 and $156,319, respectively. The decrease of $5,357 was primarily the result of a customer's decrease in utilizing our provider network, thus reducing the revenue from network access fees, partially offset due to an increase in Medicare set-aside claims.

Expenses

Total expenses for the six months ended June 30, 2020 and 2019, were $2,700,050 and $2,815,677, respectively. The decrease of $115,627 was the result of decreases in depreciation and amortization, consulting fees, professional fees, outsource service fees, data maintenance, and general and administrative expenses, which were partially offset by increases in salaries and wages and insurance fees.

Depreciation and Amortization

During the six-month period ended June 30, 2020, we recorded depreciation and amortization expense of $32,594 compared to $36,873 during the comparable 2019 period. The decrease in depreciation and amortization was primarily attributable to certain fixed assets being fully depreciated during the second half of 2020.

Consulting Fees

During the six months ended June 30, 2020, consulting fees decreased to $137,357 from $149,642 during the six months ended June 30, 2019. This decrease of $12,285 was due to fewer consulting fees associated with our insurance company acquisition search.

Salaries and Wages

During the six-month period ended June 30, 2020, salaries and wages increased 1% to $1,543,727 compared to $1,535,541 during the same period in 2019. This increase was primarily the result of increases in salaries for employees.

Professional Fees

For the six months ended June 30, 2020, we incurred professional fees of $154,768 compared to $179,216 during the six months ended June 30, 2019. The $24,448 decrease in professional fees was primarily the result of decreases in accounting, legal expenses, and medical case management fees resulting from decreased case management activity.

Insurance

During the six-month period ended June 30, 2020, we incurred insurance expenses of $183,023, a 14% increase over the same six-month period in 2019. The increase in insurance expense was primarily attributed to the increase of costs of medical insurance for existing employees.

Outsource Service Fees

We incurred $243,793 and $261,480 in outsource service fees during the six-month periods ended June 2020 and 2019, respectively. The decrease of $17,687 was primarily the result of decreases in outsource services required for medical bill review, utilization review and field medical case management fees, partially offset by increased outsource services required for Medicare set-aside claims.

Data Maintenance

During the six-month periods ended June 30, 2020 and 2019, data maintenance fees were $52,812 and $67,619, respectively. The decrease of $14,807 was primarily the result of a decrease in the number of employees enrolled in the HCO program with existing customers during the six-month period ended June 30, 2020 when compared to the same period in 2019.

General and Administrative

During the six-month period ended June 30, 2020, general and administrative expenses decreased 17% to $351,875 when compared to the six-month period ended June 30, 2019. This decrease of $73,126 was primarily attributable to decreases in advertising, auto expense, bank charges, dues and subscriptions, IT enhancement, parking, and other miscellaneous general administrative expense, partially offset by increases in telephone, office rent, licenses and permits, and shareholders' expense. These changes in general and administrative expenses were largely the result of COVID-19-related changes to how we have been conducting business during 2020.

Income from Operations

Total revenue during the six-month period ended June 30, 2020, decreased by $579,342 to $3,019,415 compared to $3,598,757 in the same period in 2019. Our total expenses decreased by $115,627 during the six months ended June 30, 2020, resulting in a decrease in income from operations of $463,715 compared to the six months ended June 30, 2019. This resulted in a 59% decrease in income from operations when compared to the same period in 2019.

Income Tax Provision

We realized a decrease of $130,165 or 59%, in our income tax provision during the six-month period ended June 30, 2020 compared to the six-month period ended June 30, 2019.

Net Income

During the six-month period ended June 30, 2020, total revenues of $3,019,415 decreased 16% and our provision for income tax decreased by 59%. These changes were only partially offset by the 4% decrease in total expenses. As a result, we realized a $333,550, or 59% decrease in net income during the six months ended June 30, 2020 when compared to the six-month period June 30, 2019.

Liquidity and Capital Resources

As of June 30, 2020, we had cash on hand of $8,966,825 compared to $8,104,164 on December 31, 2019. The $862,661 increase was the result of net cash provided by our operating and financing activities, partially offset by cash used in investing activities.

As of the date of this report, we have laid off four employees as a result of COVID-19 related closures of our employer customers. As noted above, we have taken advantage of and may in the future avail ourselves of federal, state or local government programs to protect our workforce as management and our board of directors determine to be in the best interest of the Company and our shareholders.

Historically, we have generally realized positive cash flows from operating activities, which coupled with positive reserves of cash on hand have been used to fund our operating expenses and obligations. Management currently believes that absent any unanticipated COVID-19 impact, including, but not limited to a significant longer-term downturn in the economy or the loss of several major customers within a condensed time period, cash on hand and anticipated revenues from operations will be sufficient to cover our operating expenses over the next twelve months.

As the impact of the COVID-19 pandemic continues to play out throughout our industry and the broader economy, we believe our strong cash position, could allow us to identify and capitalize on potential opportunities to expand our business either through the acquisition of existing businesses that may have insufficient resources to overcome the impacts of the pandemic, including, expansion into the insurance industry or through the creation of new lines of business. 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 market interest in our capital stock.

Cash Flow

During the six months ended June 30, 2020, cash was primarily used to fund operations. We had a net increase in cash of $862,661 during the six months ended June 30, 2020. See below for additional information.

	For the six months ended June 30, 2020 (unaudited)	2019 (unaudited)
Net cash provided by operating activities	$ 444,538	$ 495,356
Net cash used in investing activities	(42,577)	(15,247)
Net cash provided by financing activities	460,700	-
Net increase in cash	$ 862,661	$ 480,109

During the six months ended June 30, 2020 and 2019, net cash provided by operating activities was $444,538 and $495,356, respectively. As discussed herein, we realized net income of $229,717 during the six months ended June 30, 2020, compared to net income of $563,267 during the six months ended June 30, 2019.

The decrease in cash flow from operating activities was primarily the result of decreases in net income, deferred rent expense, accrued expenses, offset primarily by increases in allowance for depreciation, accounts payable, unearned revenue and decreases in prepaid expenses, accounts receivable, receivable – other, and prepaid income tax.

Net cash used by investing activities was $42,577 and $15,247 during the six-month periods ended June 30, 2020 and 2019, respectively. During the six-month period ended June 30, 2020 and 2019, net cash was used in investing activities to purchase computers, furniture and equipment.

Net cash provided by financing activities during the six months ended June 30, 2020 was $460,700 in for three PPP loans for PHCO, MMC and MMM in the amounts of $133,400, $59,600, and $267,700 respectively. We didn't engage in financing activities in 2019.

Contractual Obligations and Contingencies

Smaller reporting companies are not required to provide this information.

Off-Balance Sheet Financing Arrangements

As of June 30, 2020, we had no off-balance sheet financing arrangements.

Inflation

We experience pricing pressures in the form of competitive prices. Insurance carriers and third-party administrators often try to take our clients by offering bundled claims administration services with their own managed care services at a lower rate. We are also impacted by rising costs for certain inflation-sensitive operating expenses such as labor and employee benefits and facility leases. We believe that these impacts may be material to our revenues or net income. Some of our clients are public entities which contract with us at a fixed price for the term of the contract. Increases in labor and employee benefits can reduce our profit margin over the term of these contracts.

Critical Accounting Policies and Estimates

See Note 1 to our condensed consolidated financial statements included elsewhere in this report.

Item 3. Quantitative and Qualitative Disclosure about Market Risk

Smaller reporting companies are not required to provide this information.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

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

Our management, under the supervision and with the participation of our principal executive officer and principal financial officer, conducted an evaluation the effectiveness of our disclosure controls and procedures as of the end of the period covered by this quarterly report on Form 10-Q. Based on the evaluation of our disclosure controls and procedures as of June 30, 2020, the end of the period covered by this report, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective at a reasonable assurance level.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the quarter ended June 30, 2020, that materially affected or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1A. Risk Factors

Management does not believe there have been any material changes to the risk factors listed in Part I, "Item 1A, Risk Factors" in our annual report on Form 10-K for the year ended December 31, 2019. These risk factors should be carefully considered with the information provided elsewhere in this report, which could materially adversely affect our business, financial condition or results of operations.

Item 6. Exhibits

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

Exhibit Number	Title of Document
Exhibit 31.1	Certification of Principal Executive Officer pursuant to Rule 13a-14(a) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
Exhibit 31.2	Certification of Principal Financial Officer pursuant to Rule 13a-14(a) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
Exhibit 32.1	Certification pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
Exhibit 101	The following materials from Pacific Health Care Organization, Inc.'s Quarterly Report on Form 10-Q for the period ended June 30, 2020, formatted in XBRL (eXtensible Business Reporting Language): (i) the Unaudited Condensed Consolidated Balance Sheets, (ii) the Unaudited Condensed Consolidated Statements of Operations, (iii) the Unaudited Condensed Consolidated Statements of Cash Flows, and (iv) Notes to the Unaudited Condensed Consolidated Financial Statements.

SIGNATURES

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

PACIFIC HEALTH CARE ORGANIZATION, INC.

Date:	August 13, 2020	/s/ Tom Kubota Tom Kubota Chief Executive Officer
Date:	August 13, 2020	/s/ Fred Odaka Fred Odaka Chief Financial Officer

EXHIBIT 31.1

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

I, Tom Kubota, certify that:

1) I have reviewed this quarterly report on Form 10-Q of Pacific Health Care Organization, Inc.

2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4) The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:

(a) Designed such disclosure controls and procedures or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal controls over financial reporting; and

5) The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 13, 2020

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

EXHIBIT 31.2

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

I, Fred Odaka, 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: August 13, 2020

By: /s/ Fred Odaka
Fred Odaka
Chief Financial Officer

EXHIBIT 32.1

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

In connection with the quarterly report on Form 10-Q of Pacific Health Care Organization, Inc. (the "Company") for the period ended June 30, 2020 as filed with the Securities and Exchange Commission (the "Report"), the undersigned hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of their knowledge:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Date: August 13, 2020	By:	/s/ Tom Kubota Tom Kubota Chief Executive Officer
Date: August 13, 2020	By:	/s/ Fred Odaka Fred Odaka Chief Financial Officer

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