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, 2018

☐ 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)

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 and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted 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 and post 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 (Do not check if a smaller reporting company) ☐	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 15, 2018, the registrant had 3,200,000 shares of common stock, par value $0.001, issued and outstanding.

PACIFIC HEALTH CARE ORGANIZATION, INC.
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PART I. FINANCIAL INFORMATION

Item 1. Financial Information

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

ASSETS	June 30, 2018	December 31, 2017
Current Assets		
Cash	$ 6,544,384	$ 5,815,071
Accounts receivable, net of allowance of $25,150 and $60,150	814,100	1,041,242
Deferred tax asset	43,670	43,670
Prepaid income tax	55,425	-
Receivable other	1,191	-
Prepaid expenses	275,594	166,782
Total current assets	7,734,364	7,066,765
Property and Equipment, net		
Computer equipment	375,818	363,627
Furniture and fixtures	215,817	209,779
Office equipment	9,557	15,595
Total property and equipment	601,192	589,001
Less: accumulated depreciation and amortization	(454,811)	(422,024)
Net property and equipment	146,381	166,977
Other assets	26,788	26,788
Total Assets	$ 7,907,533	$ 7,260,530
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts payable	$ 68,495	$ 71,138
Accrued expenses	284,010	255,205
Income tax payable	-	81,715
Deferred rent expense	31,419	35,214
Dividend payable	38,173	56,923
Unearned revenue	38,624	38,357
Total current liabilities	460,721	538,552
Total Liabilities	460,721	538,552
Commitments and Contingencies	-	-
Stockholders' Equity		
Preferred stock, 5,000,000 shares authorized at $0.001 par value of which 10,000 shares designated as Series A preferred and 4,000 shares issued and outstanding at June 30, 2018 and December 31, 2017	4	4
Common stock, $0.001 par value, 200,000,000 shares authorized, 3,200,000 shares issued and outstanding at June 30, 2018 and December 31, 2017	3,200	3,200
Additional paid-in capital	425,668	1,237,348
Deferred stock compensation	-	(811,679)
Retained earnings	7,017,940	6,293,105
Total stockholders' equity	7,446,812	6,721,978
Total Liabilities and Stockholders' Equity	$ 7,907,533	$ 7,260,530

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

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

	For three months ended June 30, 2018	For three months ended June 30, 2017	For six months ended June 30, 2018	For six months ended June 30, 2017
Revenues				
HCO fees	$ 360,265	$ 360,836	$ 759,707	$ 663,405
MPN fees	130,633	146,690	265,277	284,971
UR fees	299,497	273,298	586,518	510,343
MBR fees	126,170	177,480	240,209	334,258
NCM fees	615,602	654,341	1,198,171	1,241,577
Other	129,350	62,992	194,944	182,339
Total revenues	1,661,517	1,675,637	3,244,826	3,216,893
Expenses				
Depreciation and amortization	16,443	19,570	32,787	39,397
Bad debt provision	(35,000)	18,000	(35,000)	14,750
Consulting fees	85,449	78,734	164,263	155,994
Salaries and wages	627,350	597,701	1,118,828	1,186,358
Professional fees	77,743	117,147	155,213	199,231
Insurance	73,171	90,731	140,200	178,006
Outsource service fees	163,959	145,503	259,840	258,251
Data maintenance	16,798	24,482	49,229	59,101
General and administrative	183,567	171,922	351,772	333,310
Total expenses	1,209,480	1,263,790	2,237,132	2,424,398
Income from operations	452,037	411,847	1,007,694	792,495
Income before taxes	452,037	411,847	1,007,694	792,495
Income tax provision	126,883	171,367	282,859	329,758
Net income	$ 325,154	$ 240,480	$ 724,835	$ 462,737
Basic and fully diluted earnings per share:				
Earnings per share amount	$ 0.10	$ 0.08	$ 0.23	$ 0.14
Fully diluted common shares outstanding	3,204,000	3,204,000	3,204,000	3,204,000

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

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

	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017
Cash flows from operating activities:		
Net income	$ 724,835	$ 462,737
Adjustments to reconcile net income to net cash from operations:		
Depreciation and amortization	32,787	39,397
(Decrease) in allowance for bad debt	(35,000)	(7,750)
Changes in operating assets and liabilities:		
Decrease (increase) in accounts receivable	262,142	(212,248)
(Increase) in prepaid income tax	(55,425)	-
(Increase) decrease in prepaid expenses	(108,812)	33,373
(Increase) in receivables other	(1,192)	-
(Decrease) in accounts payable	(2,643)	(38,934)
(Decrease) increase in deferred rent expense	(3,795)	2,251
Increase (decrease) in accrued expenses	28,805	(26,779)
(Decrease) increase in income tax payable	(81,715)	187,758
Increase (decrease) in unearned revenue	267	(856)
Net cash provided from operating activities	760,254	438,949
Cash flows from investing activities:		
Purchase of furniture and office equipment	(12,191)	(12,692)
Net cash used in investing activities	(12,191)	(12,692)
Cash flows from financing activities:		
Issuance of cash dividend	(18,750)	-
Net cash used in financing activities	(18,750)	-
Increase in cash	729,313	426,257
Cash at beginning of period	5,815,071	5,005,617
Cash at end of period	$ 6,544,384	$ 5,431,874
Supplemental cash flow information		
Cash paid for:		
Interest	$ -	$ -
Income tax refund	(101)	-
Income taxes paid	$ 419,999	$ 142,000

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

Pacific Health Care Organization, Inc.
Notes to Condensed Consolidated Financial Statements
For the Six Months Ended June 30, 2018
(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 information 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, it is suggested that these interim condensed consolidated financial statements 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, 2017. Operating results for the six months ended June 30, 2018, are not necessarily indicative of the results to be expected for the year ending December 31, 2018.

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

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

The ASU requires the use of a new 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. The application of the five-step model to revenue streams compared to the prior guidance did not result in significant changes in the way the Company records its revenue.

In general, the Company recognizes revenue when (i) persuasive evidence of an arrangement exists, (ii) delivery has occurred or services have been rendered, (iii) the fee is fixed or determinable and (iv) collectability is reasonably assured. Revenues are generated as services are provided to the customer based on the sales price agreed and collected. The Company recognizes revenue as the time is worked or as units of production are completed, which is when the revenue is earned and realized. Labor costs are recognized as the costs are incurred.

The Company derives its revenue from the sale of managed care, bill review and nurse 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.

Pacific Health Care Organization, Inc.
Notes to Condensed Consolidated Financial Statements
For the Six Months Ended June 30, 2018
(Unaudited)

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.

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, 2018 and December 31, 2017, bad debt reserves of $25,150 and $60,150, 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, 2018 and December 31, 2017, are as follows:

	6/30/2018	12/31/2017
Customer A	38%	35%
Customer B	0%	13%
Customer C	10%	5%

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 ("UR"), medical bill review ("MBR") and nurse case management ("NCM") services outside the state of California.

During the period ended June 30, 2018 and 2017, 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:

	6/30/2018	6/30/2017
Customer A	30%	18%
Customer B	10%	9%
Customer C	8%	13%

NOTE 2 - 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; 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").

Overview

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

Our core service focuses on the reduction of medical treatment costs by enabling our client/employers to share the control over the medical treatment process. This control is obtained by participation in one of our medical treatment networks. We hold several valuable government-issued licenses to operate medical treatment networks. Through Medex we hold two of the total of nine licenses issued by the State of California to establish and manage a Health Care Organization ("HCO") within the state of California. We also hold approvals issued by the State of California to act as a Medical Provider Network ("MPN"). Our HCO and MPN programs provide our client/employers with provider networks within which the client/employer has some ability to direct the administration of the claim. This is designed to decrease the incidence of fraudulent claims and disability awards and ensure injured employees receive the necessary back-to-work rehabilitation and training they need. We also offer a Nurse Case Management program that keeps medical treatment claims progressing to a resolution and assures treatment plans are aligned from a medical perspective. Nurse 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.

Our clients include self-administered employers, insurers, third party administrators, municipalities and others. Our principal clients are located in the State of California where the high cost of workers' compensation insurance is a critical problem for employers. Our networks have contracted with approximately 3,900 individual medical providers and clinics, as well as hospitals, pharmacies, rehabilitation centers and other ancillary services enabling our networks to provide comprehensive medical services throughout California. Our provider networks are composed of experts in treating worker injuries.

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

Results of Operations

Comparison of the three months ended June 30, 2018 and 2017

The following represents selected components of our consolidated results of operations, for the three-month periods ended June 30, 2018 and 2017, respectively, together with changes from period-to-period:

	For three months ended June 30, 2018	For three months ended June 30, 2017	Amount Change	% Change
Revenues:				
HCO fees	$ 360,265	$ 360,836	$ (571)	0%
MPN fees	130,633	146,690	(16,057)	(11)%
UR fees	299,497	273,298	26,199	10%
MBR fees	126,170	177,480	(51,310)	(29)%
NCM fees	615,602	654,341	(38,739)	(6)%
Other	129,350	62,992	66,358	105%
Total revenues	1,661,517	1,675,637	(14,120)	(1)%
Expense:				
Depreciation and amortization	16,443	19,570	(3,127)	(16)%
Bad debt provision	(35,000)	18,000	(53,000)	(294)%
Consulting fees	85,449	78,734	6,715	9%
Salaries and wages	627,350	597,701	29,649	5%
Professional fees	77,743	117,147	(39,404)	(34)%
Insurance	73,171	90,731	(17,560)	(19)%
Outsource service fees	163,959	145,503	18,456	13%
Data maintenance	16,798	24,482	(7,684)	(31)%
General and administrative	183,567	171,922	11,645	7%
Total expenses	1,209,480	1,263,790	(54,310)	(4)%
Income from operations	452,037	411,847	40,190	10%
Income before taxes	452,037	411,847	40,190	10%
Income tax provision	126,883	171,367	(44,484)	(26)%
Net income	$ 325,154	$ 240,480	$ 84,674	35%

Revenue

Total revenues during the three-month periods ended June 30, 2018 and 2017 was nearly flat decreasing approximately 1% to $1,661,517 from $1,675,637.

During the second quarter 2018, utilization review and other fees increased 10% and 105%, respectively, while MPN, medical bill review and nurse case management fees decreased by 11%, 29% and 6%, respectively. HCO fees decreased by less than 1%. 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 three-month periods ended June 30, 2018 and 2017, HCO fee revenues were $360,265 and $360,836, respectively. We expect HCO fee revenues to increase over the remaining months of fiscal 2018 as a result of increased HCO employee enrollment from existing customers, which we anticipate will lead to increased claims administration fees. The HCO program utilizes an exclusive, specialize network of medical providers experienced in workers' compensation. It also gives the employer the right to direct medical care to a network physician for a work-related injury for up to 180-days of medical treatment. The ability to direct care during the early stage of a claim ensures the injured worker gets quality care in a timely manner.

MPN fees

MPN fee revenue for the three-month periods ended June 30, 2018 and 2017, were $130,633 and $146,690, respectively, a decrease of 11%, resulting from lower revenues from one existing customer. The Medex Medical Provider Network (MPN) program is comprised of an exclusive, specialized network of medical providers experienced in workers' compensation. This network was created to provide quality medical treatment for injured workers in a timely manner and provide medical reports.

UR fees

During the three-month periods ended June 30, 2018 and 2017, utilization review revenue was $299,497 and $273,298, respectively. The increase of $26,199 in the 2018 period was primarily attributable to increased utilization reviews from two major customers. Utilization review can provide a safeguard against unnecessary and inappropriate medical treatment from the perspective of medical necessity, quality of care, appropriateness of decision-making, etc. Through our skilled staff and automated review system, we are able to deliver utilization review services that cut overhead costs for the self-insured clients, insurance companies and the public entities we service.

MBR fees

During the three-month period ended June 30, 2018, medical bill review revenue decreased $51,310 to $126,170 when compared to the same period a year earlier. This decrease was mainly caused by decreased reviews of hospital bills from existing customers when compared to the same period a year earlier. We believe this decrease in hospital bill reviews is principally the result of the implementation of hospital fee schedules. Many of our existing customers have elected to pay the fee schedule, as opposed to having us review their hospital bills. 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.

NCM fees

During the three-month periods ended June 30, 2018 and 2017, nurse case management revenue was $615,602 and $654,341, respectively. The decrease in nurse case management revenue of $38,739 was primarily the result of a net decrease in case management activity due to the loss of several nurse case managers during the first quarter of 2018.

Other

Other fees consist of revenue derived from network access and claims repricing, lien representation, legal support services, Medicare set-aside and workers' compensation carve-out services. Other fee revenue for three-month periods ended June 30, 2018 and 2017, were $129,350 and $62,992 respectively. The increase in other fees of $66,358 was the result of increases in network access fees and Medicare set-aside services partially offset by lower carve-out fees realized by IRC.

Expenses

Total expenses for the three months ended June 30, 2018 and 2017, were $1,209,480 and $1,263,790, respectively. The decrease of $54,310 was the result of decreases in depreciation, bad debt provision, professional fees, insurance and data maintenance which were partially offset by increases in consulting fees, salaries and wages, outsource service fees and general and administrative expenses.

Depreciation and Amortization

During the three-month period ended June 30, 2018, we recorded depreciation and amortization expense of $16,443 compared to $19,570 during the comparable 2017 period. The decrease in depreciation and amortization was primarily attributable to certain fixed assets being fully depreciated during the three months ended June 30, 2017.

Bad Debt

During the three-month period ended June 30, 2018, bad debt provision decreased by $53,000 compared to the three-month period ended June 30, 2017. This decrease was primarily the result of various delinquent customers making payments which resolved their uncollectible status.

Consulting Fees

During the three months ended June 30, 2018, consulting fees increased to $85,449 from $78,734 during the three months ended June 30, 2017. This increase of $6,715 was the primarily result of a net increase of hiring new consultants partially offset by terminating other existing consultants.

Salaries and Wages

During the three-month period ended June 30, 2018, salaries and wages increased 5% to $627,350 compared to $597,701 during the same period in 2017. This increase was primarily the result of salary increases in the June 2018 quarter for employees in our nurse case management, utilization review, and HCO & MPN departments.

Professional Fees

For the three months ended June 30, 2018, we incurred professional fees of $77,743 compared to $117,147 during the three months ended June 30, 2017. The $39,404 decrease in professional fees was primarily the result of lower accounting and legal expenses and lower nurse case management fees resulting from decreased case management activity.

Insurance

During the three-month period ended June 30, 2018, we incurred insurance expenses of $73,171, a 19% decrease over the same three-month period in 2017. The decrease in insurance expense was primarily attributed to reduced workers' compensation and director and officers' insurance premiums for the three-month period 2018 compared to 2017. The lower costs were partially the result of us having no open claims in the current year and insurance companies in California lowering their base workers' compensation rates.

Outsource Service Fees

Outsource service fees consist of costs incurred by our subsidiaries in outsourcing utilization review, medical bill review, Medicare set-aside services and field case management fees and typically tends to increase and decrease in correspondence with increases and decreases in demand for those services. We incurred $163,959 and $145,503 in outsource service fees during the three-month periods ended June 2018 and 2017, respectively. The increase of $18,456 was primarily the result of increases in outsource services required for utilization review, Medicare set-aside services and nurse case management. We anticipate our outsource service fees will continue to move in correspondence with the level of utilization review, medical bill review and certain nurse case management services we provide in the future.

Data Maintenance

During the three-month periods ended June 30, 2018 and 2017, data maintenance fees were $16,798 and $24,482 respectively. The decrease of $7,684 was primarily the result of recording lower levels of notification fees associated with a customer's annual renewal during the three-month period ended June 30, 2018 when compared to the same period in 2017.

General and Administrative

During the three-month period ended June 30, 2018, general and administrative expenses increased 7% to $183,567 when compared to the three-month period ended June 30, 2017. This increase of $11,645 was primarily attributable to increases in IT enhancement, licenses & permits, travel expense, and miscellaneous expense, partially offset by decreases in office supplies, charitable contributions, postage expense, auto expense, dues and subscriptions, and paid time off expenses. We do not expect current levels of general and administrative expenses to materially increase during the remaining months of 2018.

Income from Operations

As a result of the $14,120 decrease in total revenue during the three-month period ended June 30, 2018, and the $54,310 decrease in total expenses during the same period, our income from operations increased $40,190, or 10%, during the three-month period ended June 30, 2018, when compared to the same period in 2017.

Income Tax Provision

We realized a $44,484, or 26%, decrease in our income tax provision during the three-month period ended June 30, 2018, compared to the three-month period ended June 30, 2017. This decrease in income tax expense was primarily due to a decrease in the effective tax rate for the quarter ended June 30, 2018, as a result of the impact of the Tax Cuts and Jobs Act.

Net Income

During the three-month period ended June 30, 2018, total revenues of $1,661,517 was 1% lower when compared to the same period in 2017. During the 2018 period, total expenses decreased 4% and our provision for income tax decreased 26%. As a result, we realized an $84,674, or 35%, increase in net income during the three-month period ended June 30, 2018 compared to the three-month period ended June 30, 2017.

Comparison of six months ended June 30, 2018 and 2017

The following represents selected components of our consolidated results of operations, for the six-month periods ended June 30, 2018 and 2017, respectively, together with changes from period-to-period:

	For six months ended June 30,			
	2018	2017	Amount Change	% Change
Revenues:				
HCO fees	$ 759,707	$ 663,405	$ 96,302	15%
MPN fees	265,277	284,971	(19,694)	(7)%
UR fees	586,518	510,343	76,175	15%
MBR fees	240,209	334,258	(94,049)	(28)%
NCM fees	1,198,171	1,241,577	(43,406)	(4)%
Other	194,944	182,339	12,605	7%
Total revenues	3,244,826	3,216,893	27,933	1%
Expense:				
Depreciation and amortization	32,787	39,397	(6,610)	(17)%
Bad debt provision	(35,000)	14,750	(49,750)	(337)%
Consulting fees	164,263	155,994	8,269	5%
Salaries and wages	1,118,828	1,186,358	(67,530)	(6)%
Professional fees	155,213	199,231	(44,018)	(22)%
Insurance	140,200	178,006	(37,806)	(21)%
Outsource service fees	259,840	258,251	1,589	1%
Data maintenance	49,229	59,101	(9,872)	(16)%
General and administrative	351,772	333,310	18,462	6%
Total expenses	2,237,132	2,424,398	(187,226)	(8)%
Income from operations	1,007,694	792,495	215,199	27%
Income before taxes	1,007,694	792,495	215,199	27%
Income tax provision	282,859	329,758	(46,899)	(14)%
Net income	$ 724,835	$ 462,737	$ 262,098	57%

Revenue

Total revenues during the six-month period ended June 30, 2018, increased 1% to $3,244,826 compared to $3,216,893 during the six-month period ended June 30, 2017.

During the first six months of 2018, HCO, utilization review, and other fee increased 15%, 15% and 7% respectively, while MPN, MBR, and NCM decreased by 7%, 28%, and 4%, 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, 2018 and 2017, HCO fee revenues were $759,707 and $663,405 respectively. The 15% increase in HCO revenue was primarily the result of higher HCO revenue during our first fiscal quarter 2018, which was attributable to increases in HCO employee enrollment, resulting in increased claim activities from existing customers and the addition of a new customer in 2017.

MPN fees

MPN fee revenue for the six-month periods ended June 30, 2018 and 2017, was $265,277 and $284,971 respectively, a decrease of 7%, resulting from one customer phasing out its business through bankruptcy.

UR fees

During the six-month periods ended June 30, 2018 and 2017, utilization review revenue was $586,518 and $510,343, respectively. The increase of $76,175 in the 2018 period was primarily attributable to increased utilization reviews from two major customers.

MBR fees

During the six-month period ended June 30, 2018, medical bill review revenue decreased $94,049 to $240,209 when compared to the same period a year earlier. This 28% decrease was mainly caused by processing fewer hospital claims from existing customers and the termination of three customers during the second half of 2017. We believe the decrease in hospital bill reviews is principally the result of the implementation of hospital fee schedules. Many of our existing customers have elected to pay the fee schedule, as opposed to having us review their hospital bills.

NCM fees

During the six months ended June 30, 2018 and 2017, nurse case management revenue was $1,198,171 and $1,241,577, respectively. The decrease in nurse case management revenue of $43,406 was primarily the result of a net decrease in case management activity during the first quarter of 2018 when compared to the same period in 2017. We expect nurse case management revenue to increase at a moderate rate during the remainder of fiscal 2018.

Other

Other fee revenue for six-month periods ended June 30, 2018 and 2017, were $194,944 and $182,339, respectively. The increase of $12,605 was mainly the result of increased Medicare set-aside services partially offset by low network access fees and carve-out fees.

Expenses

Total expenses for the six months ended June 30, 2018 and 2017, were $2,237,132 and $2,424,398, respectively. The decrease of $187,266 was the result of decreases in depreciation and amortization, bad debt provision, salaries and wages, professional fees, insurance, and data maintenance, which were partially offset by increases in consulting fees, outsource service fees, and general and administrative expense.

Depreciation and Amortization

During the six-month period ended June 30, 2018, we recorded depreciation and amortization expense of $32,787 compared to $39,397 during the comparable 2017 period. The decrease in depreciation and amortization was primarily attributable to certain fixed assets being fully depreciated during the second half of 2017.

Bad Debt

During the six-month period ended June 30, 2018, bad debt provision decreased by $49,750 compared to the six-month period ended June 30, 2017. This decrease was primarily the result of various delinquent customers making payments which resolved their uncollectible status.

Consulting Fees

During the six months ended June 30, 2018, consulting fees increased to $164,263 from $155,994 during the six months ended June 30, 2017. This increase of $8,269 was the primarily result of a net increase of hiring new consultants partially offset by terminating other existing consultants.

Salaries and Wages

During the six-month period ended June 30, 2018, salaries and wages decreased 6% to $1,118,828 compared to $1,186,358 during the same period in 2017. This decrease was primarily the result of a fewer employees in the second quarter of 2018 in our HCO, MPN, and utilization review departments partially offset by salary increases for employees during the six-month period ended June 30, 2018.

Professional Fees

For the six months ended June 30, 2018, we incurred professional fees of $155,213 compared to $199,231 during the six months ended June 30, 2017. The $44,018 decrease in professional fees was primarily the result of lower accounting and legal expenses and lower nurse case management fees resulting from decreased case management activity.

Insurance

During the six-month period ended June 30, 2018, we incurred insurance expenses of $140,200, a 21% decrease over the same six-month period in 2017. The decrease in insurance expense was primarily attributed to lower workers' compensation and director and officer's insurance premiums for the six-month period of 2018 compared to 2017. The lower costs were partially the result of us having no open claims in the current year and insurance companies in California lowering their base workers' compensation rates.

Outsource Service Fees

We incurred $259,840 and $258,251 in outsource service fees during the six-month periods ended June 2018 and 2017, respectively. The increase of $1,589 was primarily the result of increases in outsource services required for utilization review and field case management fees. We anticipate our outsource service fees will continue to move in correspondence with the level of utilization review, medical bill review and certain nurse case management services we provide in the future.

Data Maintenance

During the six-month periods ended June 30, 2018 and 2017, data maintenance fees were $49,229 and $59,101 respectively. The decrease of $9,872 was primarily the result of recording lower levels of notification fees associated with a customer's annual renewal during the six-month period ended June 30, 2018 when compared to the same period in 2017.

General and Administrative

During the six-month period ended June 30, 2018, general and administrative expenses increased 6% to $351,772 when compared to the six-month period ended June 30, 2017. This increase of $18,462 was primarily attributable to increases in advertising, auto expense, dues and subscriptions, employment agency fees, licenses and permits, rental equipment, shareholders expense, office rent, and other miscellaneous general administrative expense, partially offset by lower levels of IT enhancement, travel and entertainment expense. We do not expect current levels of general and administrative expenses to materially increase during the remaining months of 2018.

Income from Operations

Total revenue during the six-month period ended June 30, 2018, increased $27,933 to $3,244,826 when compared to $3,216,893 in the same period in 2017. Our total expenses decreased by $187,266 during the six months ended June 30, 2018, resulting in income from operations of $1,007,694 compared to $792,495 during the six months ended June 30, 2017. This resulted in a $215,199, or 27%, increase in income from operations during the 2018 period.

Income Tax Provision

We realized a $46,899 or 14%, decrease in our income tax provision during the six-month period ended June 30, 2018 compared to the six-month period ended June 30, 2017. This decrease in income tax expense was primarily due to a decrease in the effective tax rate for the quarter ended June 30, 2018, as a result of the impact of the Tax Cuts and Jobs Act.

Net Income

During the six-month period ended June 30, 2018, total revenues of $3,244,826 was 1% higher when compared to the same period in 2017. In addition, we realized an 8% decrease in total expenses and a 14% reduction in income tax provision, which resulted in a $262,098, or 57% increase in net income during the six months ended June 30, 2018 compared to the six months ended June 30, 2017.

Liquidity and Capital Resources

As of June 30, 2018, we had cash on hand of $6,544,384 compared to $5,815,071 at December 31, 2017. The $729,313 increase was the result of net cash provided by our operating activities, partially offset by cash used in investing activities and financing activities. The increase in cash flow from operating activities was primarily the result of increases in net income and depreciation and a decrease in accounts receivable, partially offset by decreases in bad debt provision, income tax payable, deferred rent expenses, accounts payable and unearned revenues and increases in prepaid expenses. We used $12,191 in investing activities for purchases of computers, furniture and equipment. Cash for financing activities of $18,750 was used to issue cash dividend previously authorized by the Company. Barring a significant downturn in the economy or the loss of major customers, we believe that cash on hand and anticipated revenues from operations will be sufficient to cover our operating expenses over the next twelve months.

We currently have planned certain capital expenditures during 2018, to expand our IT capabilities. We believe we have adequate capital on hand to cover these expenditures and do not anticipate this will require us to seek outside sources of funding.

We continue to investigate potential opportunities to expand our business either through the creation of new business lines or the acquisition of existing businesses. We are also looking to expand our business into the insurance industry during 2018, but have not identified any suitable merger or acquisition candidates or opportunities at the current time. We anticipate an expansion or acquisition of this sort may require greater capital resources than we currently possess. Should we need additional capital resources, we could seek to obtain such through debt and/or equity financing. We do not currently possess an institutional source of financing and there is no assurance that we could be successful in obtaining equity or debt financing when needed on favorable terms, or at all. We could also use shares of our capital stock as consideration for a business acquisition transaction.

Cash Flow

During the six months ended June 30, 2018, cash was primarily used to fund operations. We had a net increase in cash of $729,313 during the six months ended June 30, 2018. See below for additional information.

	For the six months ended June 30, 2018 (unaudited)	2017 (unaudited)
Net cash provided from operating activities	$ 760,254	$ 438,949
Net cash used in investing activities	(12,191)	(12,692)
Net cash used in financing activities	(18,750)	-
Net increase in cash	$ 729,313	$ 426,257

During the six months ended June 30, 2018 and 2017, net cash provided by operating activities was $760,254 and $438,949 respectively. As discussed herein, we realized net income of $724,835 during the six months ended June 30, 2018, compared to net income of $462,737 during the six months ended June 30, 2017. The increase of $321,305 during the six months ended June 30, 2018 compared to June 30, 2017, in cash flow from operating activities was primarily the result of increases in net income and depreciation and decreases in accounts receivable and deferred compensation, partially offset by decreases in bad debt provision, income tax payable, deferred rent expenses, accounts payable and unearned revenues and increases in prepaid expenses.

Net cash used in investing activities was $12,191 and $12,692 during the six-month periods ended June 30, 2018 and 2017, respectively. During the six-month period ended June 30, 2018 and 2017, net cash was used in investing activities to purchase computers, furniture and equipment.

Net cash used in financing activities during the six-month period ended 2018 was higher by $18,750 when compared to the same period in 2017, as no cash dividends were paid in 2017.

Summary of Material Contractual Commitments

The following is a summary of our material contractual commitments as of June 30, 2018.

	Payments Due By Period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Operating Leases:					
Operating Leases – Equipment	$ 41,350	$ 20,675	$ 20,675	$ -	$ -
Office Leases	$ 967,686	235,880	731,806	-	-
Total Operating Leases	$ 1,009,036	$ 256,555	$ 752,481	$ -	$ -

Off-Balance Sheet Financing Arrangements

As of June 30, 2018, we had no off-balance sheet financing arrangements.

Inflation

We experience pricing pressures in the form of competitive prices. We are also impacted by rising costs for certain inflation-sensitive operating expenses such as labor and employee benefits and facility leases. However, we generally do not believe these impacts are material to our revenues or net income.

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

This information is not required for smaller reporting companies.

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, 2018, 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, 2018, 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, 2017. 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, 2018, 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 20, 2018	/s/ Tom Kubota Tom Kubota Chief Executive Officer
Date:	August 20, 2018	/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 20, 2018

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 20, 2018

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, 2018 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 20, 2018

/s/ Tom Kubota
Tom Kubota
Chief Executive Officer

/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.