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, 2021

or

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

For the Transition Period From ________ to _________

Commission File Number **000-50009**

PACIFIC HEALTH CARE ORGANIZATION, INC.
(Exact name of registrant as specified in its charter)

Utah	**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 11, 2021, 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, 2021	December 31, 2020
ASSETS		
Current Assets		
Cash	$ 10,100,636	$ 9,498,457
Accounts receivable, net of allowance of $8,433 and $19,404	719,045	1,063,090
Prepaid income tax	20,203	-
Receivable – other	3,000	4,000
Prepaid expenses	74,666	82,499
Total current assets	10,917,550	10,648,046
Property and Equipment, net		
Computer equipment	513,307	507,873
Furniture and fixtures	226,323	226,323
Office equipment	9,556	9,556
Total property and equipment	749,186	743,752
Less: accumulated depreciation and amortization	(644,012)	(620,705)
Net property and equipment	105,174	123,047
Operating lease right-of-use assets, net	205,242	309,282
Other assets	26,788	26,788
Total Assets	$ 11,254,754	$ 11,107,163
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts payable	$ 33,590	$ 80,134
Accrued expenses	256,676	275,152
Income tax payable	-	61,828
Deferred rent expense	8,841	2,725
Deferred tax liabilities	19,413	19,413
Dividend payable	37,000	37,000
Operating lease liabilities, current portion	205,242	243,049
Paycheck protection program loans, current portion	12,727	311,118
Unearned revenue	43,711	31,544
Total current liabilities	617,200	1,061,963
Long Term Liabilities		
Operating lease liabilities, long-term portion	-	66,233
Paycheck protection program loans, long-term portion	206,173	149,582
Total Liabilities	823,373	1,277,778
Commitments and Contingencies	-	-
Stockholders' Equity		
Preferred stock; 5,000,000 shares authorized at $0.001 par value of which 40,000 shares designated as Series A preferred and 16,000 shares issued and outstanding	$ 16	$ 16
Common stock, $0.001 par value, 2,000,000,000 shares authorized, 12,800,000 shares issued and outstanding	12,800	12,800
Additional paid-in capital	416,057	416,057
Retained earnings	10,002,508	9,400,512
Total Stockholders' Equity	10,431,381	9,829,385
Total Liabilities and Stockholders' Equity	$ 11,254,754	$ 11,107,163

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, 2021	For three months ended June 30, 2020	For six months ended June 30, 2021	For six months ended June 30, 2020
Revenues				
HCO	$ 356,011	$ 325,247	$ 647,265	$ 651,912
MPN	126,785	118,317	258,663	239,066
Utilization review	273,072	251,728	538,676	547,783
Medical bill review	78,093	82,083	174,760	165,162
Medical case management	458,423	587,318	942,856	1,264,530
Other	51,067	101,813	105,593	150,962
Total revenues	1,343,451	1,466,506	2,667,813	3,019,415
Expenses				
Depreciation	10,688	15,363	23,307	32,594
Bad debt provision	494	-	494	101
Consulting fees	58,399	61,664	115,522	137,357
Salaries and wages	698,985	797,738	1,393,603	1,543,727
Professional fees	80,127	67,542	145,956	154,768
Insurance	69,111	88,230	155,807	183,023
Outsource service fees	92,355	137,679	194,158	243,793
Data maintenance	50,080	13,084	63,376	52,812
General and administrative	151,540	137,022	323,325	351,875
Total expenses	1,211,779	1,318,322	2,415,548	2,700,050
Income from operations	131,672	148,184	252,265	319,365
Other income (expense)				
Paycheck protection program loan forgiveness income	-	-	464,386	-
Paycheck protection program loan interest expense	-	-	(3,686)	-
Total other income (expense)	-	-	460,700	-
Income before taxes	131,672	148,184	712,965	319,365
Income tax provision	36,961	41,595	110,969	89,648
Net income	$ 94,711	$ 106,589	$ 601,996	$ 229,717
Basic earnings per share:				
Earnings per share amount	$ 0.01	$ 0.01	$ 0.05	$ 0.02
Basic 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	$ 0.01	$ 0.05	$ 0.02
Fully diluted 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 Stockholders' Equity
	Shares	Amount	Shares	Amount			
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
Balances at December 31, 2020	16,000	$ 16	12,800,000	$ 12,800	$ 416,057	$ 9,400,512	$ 9,829,385
Net Income	-	-	-	-	-	507,285	507,285
Balances at March 31, 2021	16,000	$ 16	12,800,000	$ 12,800	$ 416,057	$ 9,907,797	$ 10,336,670
Net Income	-	-	-	-	-	94,711	94,711
Balances at June 30, 2021	16,000	$ 16	12,800,000	$ 12,800	$ 416,057	$ 10,002,508	$ 10,431,381

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, 2021	Six Months Ended June 30, 2020
Cash flows from operating activities:		
Net income	$ 601,996	$ 229,717
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	23,307	32,594
Bad debt provision	494	101
Paycheck protection program loan forgiveness	(460,700)	-
Changes in operating assets and liabilities:		
Decrease in accounts receivable	343,551	99,779
Decrease in receivable - other	1,000	4,500
Decrease in prepaid expenses	7,833	1,785
Increase (decrease) in accounts payable	(46,544)	29,740
Increase (decrease) in deferred rent expense	6,116	(12,856)
Decrease in accrued expenses	(18,476)	(33,465)
Decrease in income tax payable	(61,828)	-
Decrease (increase) in prepaid income tax	(20,203)	89,648
Increase in unearned revenue	12,167	2,995
Net cash provided by operating activities	388,713	444,538
Cash flows from investing activities:		
Purchase of furniture and office equipment	(5,434)	(42,577)
Net cash used in investing activities	(5,434)	(42,577)
Cash flows from financing activities:		
Proceeds from paycheck protection program loans	218,900	460,700
Net cash provided by financing activities	218,900	460,700
Increase in cash	602,179	862,661
Cash at beginning of period	9,498,457	8,104,164
Cash at end of period	$ 10,100,636	$ 8,966,825
Supplemental cash flow information		
Cash paid for:		
Interest	$ (3,686)	$ -
Income taxes	$ 193,000	$ -

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

Pacific Health Care Organization, Inc.
Notes to Condensed Consolidated Financial Statements
For the Six Months Ended June 30, 2021
(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, 2020. Operating results for the six months ended June 30, 2021, are not necessarily indicative of the results to be expected for the year ending December 31, 2021.

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 the Company's 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 customer.

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 unearned revenue.

Pacific Health Care Organization, Inc.
Notes to Condensed Consolidated Financial Statements
For the Six Months Ended June 30, 2021
(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 dates of invoices. Management reviews bad debt reserves quarterly and reserves specific accounts as warranted or sets up a general reserve based on amounts over 90 days past due. When an account is deemed uncollectible, the Company charges off the receivable against the bad debt reserve. A considerable amount of judgment is required in assessing the realization of these receivables including the current creditworthiness of each customer and related aging of the past-due balances, including any billing disputes. 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. The Company evaluates the allowance based on historical write-off experience, the size of the individual customer balances, past-due amounts, and the overall national economy. At June 30, 2021 and December 31, 2020, bad debt reserves of $8,433 and $19,404, 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, 2021 and December 31, 2020, are as follows:

	6/30/2021	12/31/2020
Customer A	24%	21%
Customer B	11%	12%

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

During the period ended June 30, 2021 and 2020, the Company had two customers that accounted for more than 10% of its total sales. The following table sets forth details regarding the percentages of total sales attributable to the Company's significant customers in the past two years:

	6/30/2021	6/30/2020
Customer A	29%	23%
Customer B	11%	7%

Leases - The Company follows the guidance of ASC 842, Leases, which requires an entity to recognize a right-of-use asset and a lease liability for virtually all leases. The Company elected to exclude from its balance sheets recognition of leases having a term of 12 months or less ("short-term leases"). Lease expense is recognized on a straight-line basis over the lease term. See Note 2 for further information regarding the Company's leases.

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 its 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 ended in June 2020.

Operating lease right-of-use ("ROU") assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. ROU assets represent the Company's right to use an underlying asset for the lease term and lease liabilities represent its obligation to make lease payments arising from the lease. Generally, the implicit rate of interest in 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.

Pacific Health Care Organization, Inc.
Notes to Condensed Consolidated Financial Statements
For the Six Months Ended June 30, 2021
(Unaudited)

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

	Three Months Ended June 30, 2021	Six Months Ended June 30, 2021
Lease Cost		
Operating lease cost (included in general and administrative in the Company's condensed consolidated statement of operations)	$ 51,459	$ 124,405
Other Information		
Cash paid for amounts included in the measurement of lease liabilities for the three and six months ended June 30, 2021	$ 51,459	$ 124,405
Weighted average remaining lease term – operating leases (in years)	0.83 years	0.83 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, 2021	At December 31, 2020
Operating leases		
Operating lease right-of-use assets, net	$ 205,242	$ 309,282
Short-term operating lease liabilities	$ 205,242	$ 243,049
Long-term operating lease liabilities	-	66,233
Total operating lease liabilities	$ 205,242	$ 309,282

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

Year Ending	Operating Leases
2021 (remaining 6 months)	$ 141,019
2022	71,359
Total lease payments	212,378
Less: Imputed interest/present value discount	(7,136)
Present value of lease liabilities	$ 205,242

Lease expenses were $51,459 and $77,466 during the three months ended June 30, 2021 and 2020, respectively, and $124,405 and $153,217 during the six months ended June 30, 2021 and 2020, respectively.

NOTE 3 - PAYCHECK 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 Paycheck Protection Program. PHCO received a loan in the amount of $133,400 (the "PHCO PPP Loan"). The PHCO PPP Loan interest rate was 1.0% per annum. MMM and MMC received loans of $267,700 and $59,600, respectively (collectively the "Medex Companies PPP Loans"). The Medex Companies PPP Loans interest rate was also 1.0% per annum.

In February 2021, the principal and interest on the PHCO PPP Loan and the Medex Companies PPP Loans were forgiven in full. The total amount of the loan and interest forgiven for PHCO was $133,400 and $1,067, respectively. The total amount of the principal and interest forgiven for MMM was $267,700 and $2,142, respectively. The total amount of the principal and interest forgiven for MMC was $59,600 and $477, respectively. The funds were used for qualifying expenses as described in the CARES Act, namely payroll, rent, utilities and group health insurance benefits.

Economic Aid Act

On April 1, 2021, Company subsidiary MMM received a loan pursuant to section 311 of the Economic Aid Act Paycheck Protection Program Second Draw Loans in the amount of $218,900 from First Citizens Bank (the "Second Draw PPP Loan"). The Second Draw PPP Loan bears an interest rate of 1.0% per annum and is payable monthly commencing on February 28, 2022, if loan forgiveness is not requested by that date. The loan funds are eligible for full forgiveness if used for qualifying expenses, such as payroll, group health benefits, rent and utilities.

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 ("quarterly report") 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 management's beliefs and assumptions and on information currently available to management. For this purpose any statement contained in this quarterly report that is not a statement of historical fact may be deemed to be forward-looking, including, but not limited to statements about future demand for the products and services we offer, changes in the composition of the products and services we offer, the impact of the loss of one or more major customers, our ability to add new customers to replace the loss of current customers, the regulatory environment in which we operate, future revenues, expenses, results of operations, liquidity, capital resources or cash flows, or our actions, intentions, plans, strategies and objectives and other risks and uncertainties detailed elsewhere in this quarterly report. Without limiting the foregoing, words such as "believe," "expect," "estimate," "plan," "objective," "future," "may," "will," "likely," "could," "should," or "anticipate" or comparable terminology are intended to identify forward-looking statements. These statements by their nature involve known and unknown risks, uncertainties, and other factors that may cause our actual results, performance or achievements or the industry to be materially different from any future results, performance or achievements or industry outcomes expressed or implied by such forward-looking statements. Such factors include, but are not limited to:

- the impact on our business of COVID-19, as well as its impacts on the workers' compensation industry, the businesses of our customers and on the economy generally;
- cost reduction efforts by our existing and prospective customers;
- competition within our industry, including competition from much larger competitors;
- business combinations among our customers or competitors;
- legislative and regulatory requirements or changes which could render our services less competitive or obsolete;
- our failure to successfully develop new services and/or products either organically or through acquisition, or to anticipate current or prospective customers' needs;
- our ability to retain existing customers and to attract new customers;
- price increases;
- cybersecurity and software system failures and breaches;
- reductions in worker's compensation claims or the demand for our services, from whatever source; and
- delays, reductions, non-payment, or cancellations of contracts we have previously entered.

For more detailed information about particular risk factors related to us and our business, see Item 1A Risk Factors of our Annual Report on Form 10-K for the year ended December 31, 2020, filed the Securities and Exchange Commission (the "Commission") on March 31, 2021 (the "Annual Report").

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, 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 Medical 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 our 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 services ("MSA"). 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 bill review services. In October 2018, we incorporated Pacific Medical Holding Company, Inc. ("PMHC") to act as a holding company for future potential acquisitions. In order to simplify business procedures, bookkeeping and administrative structure; and eliminate duplicative functions and reduce costs; we plan to terminate the existence of IRC, MLS and PMHC and wind up those subsidiaries during 2021. The business, assets and liabilities of those entities will be transferred to PHCO or its other subsidiaries.

Business of the Company

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

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

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

Our core services focus on reducing medical treatment costs by enabling our customers to share control over the medical treatment process. This control is primarily obtained by participation in one of our medical treatment networks. We hold several valuable government-issued licenses to operate medical treatment networks. Through Medex we hold two of the total of seven licenses issued by the state of California to establish and manage HCOs within the state of California. We also hold approvals issued by the state of California to act as an MPN and currently administer 30 MPNs. Our HCO and MPN programs provide our customers with provider networks within which the customer has some ability to direct the administration of the claim. This is designed to decrease the incidence of fraudulent claims and disability awards and ensure injured employees receive the necessary back-to-work rehabilitation and training they need. Our medical bill and utilization review services provide oversight of medical billing and treatment requests, along with medical case management, which keeps medical treatment claims progressing to a resolution and assures treatment plans are aligned from a medical perspective.

Our customers include self-administered employers, insurers, third party administrators, municipalities, and others. Our principal customers are companies with operations located in the state of California where the high cost of workers' compensation insurance is a critical problem for employers, though we have processed medical bill reviews in 17 states. Our provider networks, which are located only in California, are composed of providers experienced in treating worker injuries.

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

Impact of COVID-19 on our Business

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

Revenue for our services is derived from our customers' employee counts and workers' workplace injuries. Several of our customers, including some of our largest customers, have had to suspend or significantly modify their operations during the pandemic. Until the impacts of COVID-19 on our customers' businesses lessen, employees return to more normal workloads and the occurrence of workplace injuries returns to more traditional levels, we anticipate our revenues will continue to be negatively affected.

As of the date of this report, California has lifted its COVID-19 restrictions and businesses now are able to resume full operations. California has seen a recent surge in new COVID-19 cases and in some counties have resumed requiring masks indoors. Despite the lifting of COVID-19 restrictions, we anticipate that our affected customers will continue to experience lower than normal business volume and employee counts due to the pandemic.

California has passed legislation to address employer liability in workers' compensation for COVID-19 cases. At this time, the extent to which workers' compensation will be used to address COVID-19 treatment in California is unclear.

In April 2020, the Department of Labor issued regulations to implement the Families First Coronavirus Response Act ("FFCRA") which provided employees paid leave for COVID-19 related illness for themselves and/or a family member and provided employers with tax credits. The FFRCA expired on December 31, 2020. In March 2021, the American Rescue Plan Act ("ARPA") was signed into law. The ARPA makes tax credits available to employers with fewer than 500 employees who voluntarily choose to grant employees paid leave under the FFCRA through September 30, 2021, and updates certain FFCRA leave provisions. We voluntarily chose to extend the FFCRA paid leave through September 30, 2021 to employees for qualifying reasons and take the tax credits.

In March 2021, California passed its own COVID-19 Supplemental Paid Sick Leave law ("CA SPSL"). It provides employees paid leave for COVID-19 related reasons such as caring for themselves, family members, or for vaccine related appointments or illnesses caused by COVID-19 or the vaccine from January 1, 2021 through September 30, 2021. The CA SPSL allows for employees to retroactively request reimbursement for qualifying leave or to use it towards future requests through September 30, 2021.

In April and May 2020, PHCO, MMM and MMC were granted a Paycheck Protection Program ("PPP") loans in the aggregate amount of $460,700. In the spirit of the PPP loan program policy, which was to protect the continued economic stability of employees, the majority of the PPP loan amounts went towards payroll and employee benefit expenses. In February 2021, PHCO, MMC, and MMM received full forgiveness of their PPP loans including interest. MMM was eligible for and received a Second Draw PPP Loan in the amount of $218,900 on April 1, 2021. This Second Draw PPP Loan can qualify for full loan forgiveness if the disbursements meet the required forgiveness criteria.

On June 15, 2021, the Governor of California terminated the executive order that put into place the Stay Home Order and Blueprint for a Safer Economy. This removed restrictions on physical distancing, capacity limits on businesses, and the county tiers system. As the pandemic is still ongoing, we have elected to allow employees to continue working remotely as a safety precaution, and currently anticipate maintaining a significant portion of our workforce fully remote after the pandemic.

We have taken measures to ensure data security in our transition to remote work during the pandemic, but there is no guarantee that they 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, our business has been and could continue to be materially and adversely affected by the potential interruptions to our business operations arising from the COVID-19 outbreak.

Results of Operations

Comparison of the three months ended June 30, 2021 and 2020

The following represents selected components of our consolidated results of operations for the three-month periods ended June 30, 2021 and 2020, respectively, together with changes from period-to-period:

	For three months ended June 30, 2021	For three months ended June 30, 2020	Amount Change	% Change
Revenues:				
HCO	$ 356,011	$ 325,247	$ 30,764	9%
MPN	126,785	118,317	8,468	7%
Utilization review	273,072	251,728	21,344	8%
Medical bill review	78,093	82,083	(3,990)	(5%)
Medical case management	458,423	587,318	(128,895)	(22%)
Other	51,067	101,813	(50,746)	(50%)
Total revenues	1,343,451	1,466,506	(123,055)	(8%)
Expense:				
Depreciation	10,688	15,363	(4,675)	(30%)
Bad debt provision	494	-	494	-
Consulting fees	58,399	61,664	(3,265)	(5%)
Salaries and wages	698,985	797,738	(98,753)	(12%)
Professional fees	80,127	67,542	12,585	19%
Insurance	69,111	88,230	(19,119)	(22%)
Outsource service fees	92,355	137,679	(45,324)	(33%)
Data maintenance	50,080	13,084	36,996	283%
General and administrative	151,540	137,022	14,518	11%
Total expenses	1,211,779	1,318,322	(106,543)	(8%)
Income from operations	131,672	148,184	(16,512)	(11%)
Income before taxes	131,672	148,184	(16,512)	(11%)
Income tax provision	36,961	41,595	(4,634)	(11%)
Net income	$ 94,711	$ 106,589	$ (11,878)	(11%)

Revenue

HCO

During the three-month periods ended June 30, 2021 and 2020, HCO revenues were $356,011 and $325,247, respectively. The 9% increase was due to an increase in claims activity and renegotiation of certain deliverables to an existing customer, partially offset by the loss of two customers in 2021. 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.

MPN

MPN revenue for the three-month periods ended June 30, 2021 and 2020, were $126,785 and $118,317, respectively, an increase of 7%. The increase in MPN revenue was for higher claim network fees for reported workplace injuries. 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. Unlike the HCO, MPNs do not require annual notifications. MPNs only require a notice be given to an injured worker at the time the employer is notified by the injured worker that an injury has occurred.

Utilization Review

During the three-month periods ended June 30, 2021 and 2020, utilization review revenue was $273,072 and $251,728, respectively. The increase of $21,344 in the 2021 period was due to an increase in utilization reviews from existing customers and an existing customer adding utilization review at the end of the second quarter in 2020, partially offset by the loss of two customers in the second quarter of 2021.

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

Medical Bill Review

During the three-month period ended June 30, 2021, medical bill review revenue decreased by $3,990, when compared to the same period a year earlier. The decrease was due to the loss of a customer in the second quarter of 2021 and a decrease in hospital and medical bills reviewed from other customers.

Medical bill review involves analyzing medical provider services and equipment billing to ascertain proper reimbursement. Such services include, but are not limited to, coding review and re-bundling, confirming that the services are customary and reasonable, fee schedule compliance, out-of-network bill review, pharmacy review, and preferred provider organization repricing arrangements. Our medical bill review services can result in significant savings for our customers.

Medical Case Management

During the three-month periods ended June 30, 2021 and 2020, medical case management revenue was $458,423 and $587,318, respectively. The decrease in medical case management revenue of $128,895 was due to a decrease in the number of claims managed with existing customers, partially offset by increases in medical case management from an existing customer that added the service in the third quarter of 2020. We expect that medical case management revenue will continue to be lower through the remainder of 2021.

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, evaluates, coordinates, implements and monitors medical treatment plans and the options and services required to meet an injured worker's health needs. A medical case manager acts as a liaison between the injured worker, claims adjuster, medical providers, and attorneys to achieve optimal results for injured workers and customers. We work to manage the number of nurses in our program to maintain our ratio of claims per nurse at a level that ensures timely and appropriate medical care is given to the injured worker and facilitates faster claims closures for our customers.

Other

Other revenue consists 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, 2021 and 2020, were $51,067 and $101,813, respectively. The decrease in other revenue of 50% was the result of fewer Medicare set-aside claims processed due to its seasonality and we expect it to increase during the remainder of 2021.

Expenses

Total expenses for the three months ended June 30, 2021 and 2020, were $1,211,779 and $1,318,322, respectively. The 8% decrease in expenses was the result of decreases in depreciation, consulting fees, salaries and wages, insurance, and outsource service fees, partially offset by increases in bad debt provision, professional fees, data maintenance, and general and administrative.

Depreciation

During the three-month period ended June 30, 2021, we recorded depreciation expense of $10,688 compared to $15,363 during the comparable 2020 period. The decrease in depreciation was primarily attributable to certain fixed assets being fully depreciated during the three months ended June 30, 2021, partially offset by the purchasing of new fixed assets.

Consulting Fees

During the three months ended June 30, 2021, consulting fees decreased to $58,399 from $61,664 compared to the three months ended June 30, 2020. The 5% decrease was the result of lower consulting fees for our information systems due to a reduction in the number of consultants retained as compared to the second quarter of 2020.

Salaries and Wages

During the three-month period ended June 30, 2021, salaries and wages decreased by 12% when compared to the same period in 2020. This decrease was the result of a layoff of four employees in July 2020, due a decrease in our revenue because of the COVID-19 pandemic. Subsequent to the quarter end, in July 2021, we laid off two additional employees. As a result of these layoffs, we expect salaries and wages to continue to be lower throughout 2021 than they were in 2020.

Professional Fees

For the three months ended June 30, 2021, professional fees increased by 19% from $67,542 to $80,127 when compared to the three months ended June 30, 2020. The increase in professional fees was the result of increases in accounting, legal expenses, and other professional fees, partially offset by decreases in medical consultant fees.

Insurance

During the three-month period ended June 30, 2021, we incurred insurance expenses of $69,111, a 22% decrease over the same three-month period in 2020. The decrease in insurance expenses was primarily attributed to lower medical insurance premiums as a result of our reduced workforce and lower insurance expenses for business, directors' and officers' liability, and workers' compensation for the three-month period of 2021 compared to the same period of 2020.

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 $92,355 and $137,679 in outsource service fees during the three-month periods ended June 2021 and 2020, respectively. The decrease of 33% was due to a decrease in volume from our customers that required outsource services for Medicare-set-asides and medical bill review, the loss of two utilization review customers in the second quarter of 2021 and fewer field case management assignments.

Data Maintenance

During the three-month periods ended June 30, 2021 and 2020, data maintenance fees were $50,080 and $13,084, respectively. The increase of $36,996 was primarily the result of a customer's annual HCO renotification coupled with an increase in new hire notifications during the three-month period ended June 30, 2021, when compared to the same period in 2020. We believe this significant increase is more attributable to the timing for the occurrence of certain events than an indication of a trend to significantly higher data maintenance fees expense in future periods.

General and Administrative

During the three-month period ended June 30, 2021, general and administrative expenses increased 11% to $151,540 when compared to the three-month period ended June 30, 2020. This increase of $14,518 was primarily attributable to increase in auto expenses, bank charges, office supplies, miscellaneous expenses, office rent, travel & entertainment, vacation expense, partially offset by decreases in advertising, dues & subscriptions, IT enhancement, licenses and permits, parking, postage, printing & reproduction, rent expense for equipment, shareholders' expense, and telephone expenses.

Income from Operations

As a result of the $123,055 decrease in total revenue during the three-month period ended June 30, 2021, and the $106,543 decrease in total expenses during the same period, our income from operations decreased $16,512, or 11%, during the three-month period ended June 30, 2021, when compared to the same period in 2020.

Income Tax Provision

We realized a $4,634, or 11%, decrease in our income tax provision during the three-month period ended June 30, 2021, compared to the three-month period ended June 30, 2020, because of the decrease in net income realized in the 2021 period.

Net Income

During the three-month period ended June 30, 2021, we realized an 8% decrease in both total revenues and total expenses and an 11% decrease in our provision for income tax when compared to the same period in 2020. As a result, we realized a net decrease of $11,878, or 11%, in net income during the three-month period ended June 30, 2021, compared to the three-month period ended June 30, 2020.

Comparison of six months ended June 30, 2021 and 2020

The following represents selected components of our consolidated results of operations, for the six-month periods ended June 30, 2021 and 2020, respectively, together with changes from period-to-period:

	For six months ended June 30, 2021	For six months ended June 30, 2020	Amount Change	% Change
Revenues:				
HCO	$ 647,265	$ 651,912	$ (4,647)	(1%)
MPN	258,663	239,066	19,597	8%
Utilization review	538,676	547,783	(9,107)	(2%)
Medical bill review	174,760	165,162	9,598	6%
Medical case management	942,856	1,264,530	(321,674)	(25%)
Other	105,593	150,962	(45,369)	(30%)
Total revenues	2,667,813	3,019,415	(351,602)	(12%)
Expense:				
Depreciation	23,307	32,594	(9,287)	(28%)
Bad debt provision	494	101	393	389%
Consulting fees	115,522	137,357	(21,835)	(16%)
Salaries and wages	1,393,603	1,543,727	(150,124)	(10%)
Professional fees	145,956	154,768	(8,812)	(6%)
Insurance	155,807	183,023	(27,216)	(15%)
Outsource service fees	194,158	243,793	(49,635)	(20%)
Data maintenance	63,376	52,812	10,564	20%
General and administrative	323,325	351,875	(28,550)	(8%)
Total expenses	2,415,548	2,700,050	(284,502)	(11%)
Income from operations	252,265	319,365	(67,100)	(21%)
Other income (expense)				
Paycheck protection program loan forgiveness income	464,386	-	464,386	-
Paycheck protection program loan interest expense	(3,686)	-	(3,686)	-
Total other income (expense)	460,700	-	460,700	-
Income before taxes	712,965	319,365	393,600	123%
Income tax provision	(110,969)	(89,648)	21,321	24%
Net income	$ 601,996	$ 229,717	$ 372,279	162%

Revenue

HCO

During the six-month periods ended June 30, 2021 and 2020, HCO revenue was $647,265 and $651,912, respectively. The 1% decrease in HCO revenue was primarily attributable to the loss of three HCO customers and fewer custom network fees paid by customers to maintain custom provider lists. These decreases were partially offset by an increase in the number of claims from other customers and renegotiation of certain deliverables to an existing customer.

MPN

MPN revenue for the six-month periods ended June 30, 2021 and 2020, was $258,663 and $239,066, respectively, an increase of 8%, due to an increase in the number of claims reported by two customers. 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 six-month periods ended June 30, 2021 and 2020, utilization review revenue was $538,676 and $547,783, respectively. The decrease of 2% in the 2021 period was primarily attributable to decreased utilization reviews from the loss of two customers and fewer utilization reviews submitted by medical providers; partially offset by an existing customer adding utilization review in the second quarter of 2020.

Medical Bill Review

During the six-month period ended June 30, 2021, medical bill review revenue increased by 6% to $174,760 from $165,162 when compared to the same period a year earlier. This increase was due to an increase in hospital bills and non-hospital bills reviewed, partially offset by the loss of a customer in the second quarter of 2021.

Medical Case Management

During the six months ended June 30, 2021 and 2020, medical case management revenue was $942,856 and $1,264,530, respectively. The 25% decrease in medical case management revenue was primarily the result of the loss of two customers and a decrease in the number and amount of time spent on claims managed with existing customers. The decrease was partially offset by the addition of a new customer during the first quarter of 2021. We expect to see lower medical case management revenue through the remainder of 2021.

Other

Other revenue for six-month periods ended June 30, 2021 and 2020, was $105,593 and $150,962, respectively. The decrease of $45,369 was primarily the result of a decrease in the volume of Medicare set-aside claims, partially offset by a customer utilizing our provider network, thus increasing the revenue from network access fees.

Expenses

Total expenses for the six months ended June 30, 2021 and 2020, were $2,415,548 and $2,700,050, respectively. The decrease of $284,502 was the result of decreases in depreciation, consulting fees, salaries and wages, professional fees, insurance, outsource service fees, and general and administrative expenses, which were partially offset by increases in bad debt provision and data maintenance.

Depreciation

During the six-month period ended June 30, 2021, we recorded depreciation expense of $23,307 compared to $32,594 during the comparable 2020 period. The decrease in depreciation was primarily attributable to equipment that had fully depreciated prior to the quarter ended June 30, 2021, partially offset by the purchasing of new fixed assets.

Consulting Fees

During the six months ended June 30, 2021, consulting fees decreased 16% to $115,522 from $137,357 during the six months ended June 30, 2020. This decrease of $21,835 was because we had fewer information systems consulting fees and fewer consultant fees related to our insurance company acquisition search.

Salaries and Wages

During the six-month period ended June 30, 2021, salaries and wages decreased 10% to $1,393,603 compared to $1,543,727 during the same period in 2020. The decrease was primarily the result of the layoff in the third quarter of 2020. As noted above, we expect salaries and wages to continue to be lower throughout 2021 than they were in 2020.

Professional Fees

For the six months ended June 30, 2021, we incurred professional fees of $145,956 compared to $154,768 during the six months ended June 30, 2020. The $8,812 decrease in professional fees was primarily the result of decreases in other professional fees and other medical case management fees resulting from decreased case management activity, partially offset by increases in accounting and legal professional fees.

Insurance

During the six-month period ended June 30, 2021, we incurred insurance expenses of $155,807, a 15% decrease over the same six-month period in 2020. The decrease in insurance expenses was primarily attributed to a decrease in medical insurance premiums as a result of our lower employee count and lower insurance expense for business, directors' and officers' liability, and workers' compensation during the 2021 period compared to the 2020 period.

Outsource Service Fees

We incurred $194,158 and $243,793 in outsource service fees during the six-month periods ended June 2021 and 2020, respectively. The decrease of $49,635 was primarily the result fewer Medicare set-aside claims, medical bill review, and utilization review processed, partially offset by increase in outsource services for field medical case management fees.

Data Maintenance

During the six-month periods ended June 30, 2021 and 2020, data maintenance fees were $63,376 and $52,812, respectively. The increase of $10,564 was primarily the result of an increase in the number of employees enrolled in our HCO program with existing customers and an increase in new hire notifications during the six-month period ended June 30, 2021, when compared to the same period in 2020.

General and Administrative

During the six-month period ended June 30, 2021, general and administrative expenses decreased 8% to $323,325 when compared to the six-month period ended June 30, 2020. This decrease of $28,550 was primarily attributable to decreases in advertising, dues & subscriptions, equipment/repairs, IT enhancement, licenses & permits, parking, postage, printing & reproduction, rent expense for equipment, miscellaneous expenses, shareholders' expense, travel & entertainment, partially offset by increases in auto expense, bank charges, office supplies, telephone, office rent, and vacation expense.

Income from Operations

Total revenue during the six-month period ended June 30, 2021, decreased by $351,602 to $2,667,813 compared to $3,019,415 in the same period in 2020. Our total expenses decreased by $284,502 during the six months ended June 30, 2021, compared to the same period in 2020. This led to a decrease in income from operations of $67,100, or 21%, during the six months ended June 30, 2021, compared to the six months ended June 30, 2020.

Other Income (Expense)

In February 2021, the principal and interest on the PPP loans issued to PHCO, MMC and MMM in April and May 2020, was forgiven in full. As a result, we realized total other income of $464,386 and other expense in the form of interest expense for the PPP loans of $3,686 in the six months ended June 30, 2021. During the corresponding period ended June 30, 2020, we realized no other income (expense).

Income Tax Provision

We realized an increase of $21,321 or 24%, in our income tax provision during the six-month period ended June 30, 2021 compared to the six months ended June 30, 2020, as the income realized from the PPP loan forgiveness is considered taxable income.

Net Income

During the six-month period ended June 30, 2021, total revenues was $2,667,813, a decrease of 12%, and our provision for income tax increased 24%. These changes were only partially offset by the 11% decrease in total expenses. As a result, we realized a $372,279, or 162% increase in net income during the six months ended June 30, 2021 when compared to the six months ended June 30, 2020. The increase in net income resulted primarily from the PPP loan forgiveness for PHCO, MMM, and MMC, plus interest in the amount of $464,386 that we received in February 2021.

Liquidity and Capital Resources

As of June 30, 2021, we had cash on hand of $10,100,636 compared to $9,498,457 on December 31, 2020. The $602,179 increase was the result of net cash provided by our operating activities and financing activities, partially offset by cash used in investing activities.

As of the date of this report, we have laid off six employees, including four in July 2020, and two in July 2021, as a result of the COVID-19 pandemic and loss of 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. We have focused on using our Second Draw PPP Loan for qualifying expenses, such as payroll, and currently plan to apply for forgiveness of the Second Draw PPP Loan when appropriate.

We currently have planned certain capital expenditures during the remainder of 2021 to decommission certain IT systems and move to another platform. We believe we have adequate capital on hand to cover these expenses and do not anticipate this will require us to seek outside sources of funding.

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 foreseeable future.

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, 2021, cash was primarily used to fund operations. We had a net increase in cash of $602,179 during the six months ended June 30, 2021. See below for additional information.

	For the six months ended June 30, 2021 (unaudited)	For the six months ended June 30, 2020 (unaudited)
Net cash provided by operating activities	$ 388,713	$ 444,538
Net cash used in investing activities	(5,434)	(42,577)
Net cash provided by financing activities	218,900	460,700
Net increase in cash	$ 602,179	$ 862,661

During the six months ended June 30, 2021 and 2020, net cash provided by operating activities was $388,713 and $444,538, respectively, a decrease of $55,825. This decrease was primarily the result of decreases in net income, prepaid expenses, accounts receivable, receivable – other, accounts payable, accrued expenses, and income tax payable, partially offset by increases in allowance for bad debt, prepaid income tax, deferred rent expense, and unearned revenue.

Net cash used in investing activities was $5,434 and $42,577 during the six-month periods ended June 30, 2021 and 2020, respectively. During the six-month periods ended June 30, 2021 and 2020, net cash was used in investing activities to purchase computers and equipment.

Net cash provided by financing activities during the six months ended June 30, 2021 and 2020, was $218,900 and $460,700, respectively. During 2020 we received three PPP loans for PHCO, MMC and MMM in the amounts of $133,400, $59,600, and $267,700, respectively. These loans were forgiven in February 2021. In April 2021, MMM received a Second Draw PPP loan in the amount of $218,900. We have focused on using these funds for qualifying expenses and plan to apply for loan forgiveness in the future.

Off-Balance Sheet Financing Arrangements

As of June 30, 2021, 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 customers by offering bundled claims administration services with their own managed care services at a lower rate. We are also impacted by rising costs for certain inflation-sensitive operating expenses such as labor and employee benefits and facility leases. We believe that these impacts may be material to our revenues or net income. Some of our customers are public entities which contract with us at a fixed price for the term of the contract. Increases in labor and employee benefits can reduce our profit margin over the term of these contracts.

Critical Accounting Policies and Estimates

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

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

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

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

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

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

We must make significant judgments and estimates in determining contractual and bad debt allowances in any accounting period. One significant uncertainty inherent in our analysis is whether our experience will be indicative of future periods. Although we consider future projections when estimating contractual and bad debt allowances, we ultimately make our decisions based on the best information available to us at the time the decision is made. Adverse changes in general economic conditions or trends in reimbursement amounts for our services could affect our contractual and bad debt allowance estimates, collection of accounts receivables, cash flows, and results of operations. Two customers accounted for 10% or more of accounts receivable at June 30, 2021 and 2020, respectively.

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

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

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

Item 3. Quantitative and Qualitative Disclosure about Market Risk

Smaller reporting companies are not required to provide this information.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

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

Our management, under the supervision and with the participation of our principal executive officer and principal financial officer, conducted an evaluation the effectiveness of our disclosure controls and procedures as of the end of the period covered by this quarterly report on Form 10-Q. Based on the evaluation of our disclosure controls and procedures as of June 30, 2021, the end of the period covered by this report, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective at a reasonable assurance level.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the quarter ended June 30, 2021, 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. 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, 2021, formatted in iXBRL (Inline eXtensible Business Reporting Language): (i) the Unaudited Condensed Consolidated Balance Sheets, (ii) the Unaudited Condensed Consolidated Statements of Operations, (iii) the Unaudited Condensed Consolidated Statements of Cash Flows, and (iv) Notes to the Unaudited Condensed Consolidated Financial Statements.
Exhibit 104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

SIGNATURES

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

PACIFIC HEALTH CARE ORGANIZATION, INC.

Date:	August 12, 2021	/s/ Tom Kubota Tom Kubota Chief Executive Officer
Date:	August 12, 2021	/s/ Kristina Kubota Kristina Kubota 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 12, 2021

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

EXHIBIT 31.2

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

I, Kristina Kubota, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: August 12, 2021

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

EXHIBIT 32.1

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

In connection with the quarterly report on Form 10-Q of Pacific Health Care Organization, Inc. (the "Company") for the period ended June 30, 2021, 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 12, 2021 By: /s/ Tom Kubota
Tom Kubota
Chief Executive Officer

Date: August 12, 2021 By: /s/ Kristina Kubota
Kristina Kubota
Chief Financial Officer

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