

**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 September 30, 2019
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Transition Period From _____ to _____

Commission File Number **000-50009**

PACIFIC HEALTH CARE ORGANIZATION, INC.

(Exact name of registrant as specified in its charter)

Utah
(State or other jurisdiction of incorporation or organization)

87-0285238
(I.R.S. Employer I.D. No.)

1201 Dove Street, Suite 300
Newport Beach, California
(Address of principal executive offices)

92660
(Zip Code)

(949) 721-8272
(Registrant's telephone number, including area code)

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

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

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

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

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

Large accelerated filer
Non-accelerated filer

Accelerated filer
Smaller reporting company
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected to not 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 November 14, 2019, the registrant had 3,200,000 shares of common stock, par value \$0.001, issued and outstanding.

PACIFIC HEALTH CARE ORGANIZATION, INC.
FORM 10-Q
TABLE OF CONTENTS

	<u>Page</u>
PART I — FINANCIAL INFORMATION	
<u>Item 1. Condensed Consolidated Financial Statements</u>	3
<u>(Unaudited) Balance Sheets as of September 30, 2019 and December 31, 2018</u>	3
<u>(Unaudited) Statements of Operations for the Three and Nine Months Ended September 30, 2019 and 2018</u>	4
<u>(Unaudited) Statements of Stockholders' Equity for the Three and Nine Months Ended September 30, 2019 and 2018</u>	5
<u>(Unaudited) Statements of Cash Flows for the Nine Months Ended September 30, 2019 and 2018</u>	6
<u>Notes to Condensed Consolidated Financial Statements (Unaudited)</u>	7
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	10
<u>Item 3. Quantitative and Qualitative Disclosure about Market Risk</u>	20
<u>Item 4. Controls and Procedures</u>	20
PART II — OTHER INFORMATION	
<u>Item 1A. Risk Factors</u>	21
<u>Item 6. Exhibits</u>	21
<u>Signatures</u>	22

PART I. FINANCIAL INFORMATION

Item 1. Financial Information

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

ASSETS

	<u>September 30,</u> <u>2019</u>	<u>December 31,</u> <u>2018</u>
Current Assets		
Cash	\$ 8,101,121	\$ 7,072,507
Accounts receivable, net of allowance of \$36,439 and \$28,442	963,597	940,426
Deferred tax asset	63,465	63,465
Prepaid income tax	94,856	73,959
Receivable – Other	17,589	23,715
Prepaid expenses	119,964	163,255
Total current assets	<u>9,360,592</u>	<u>8,337,327</u>
Property and Equipment, net		
Computer equipment	451,872	405,219
Furniture and fixtures	215,960	215,960
Office equipment	9,556	9,556
Total property and equipment	<u>677,388</u>	<u>630,735</u>
Less: accumulated depreciation and amortization	<u>(544,493)</u>	<u>(489,108)</u>
Net property and equipment	132,895	141,627
Operating lease right-of-use assets, net	621,348	-
Other assets	26,788	26,788
Total Assets	<u>\$ 10,141,623</u>	<u>\$ 8,505,742</u>

LIABILITIES AND STOCKHOLDERS' EQUITY

Current Liabilities		
Accounts payable	\$ 99,448	\$ 63,724
Accrued expenses	304,794	248,455
Credit card payable	54	3,146
Income tax payable	-	100
Deferred rent expense	34,864	26,114
Dividend payable	37,000	37,000
Operating lease liabilities, current portion	201,551	-
Unearned revenue	47,344	45,448
Total current liabilities	<u>725,055</u>	<u>423,987</u>
Long Term Liabilities		
Operating lease liabilities, long-term portion	419,797	-
Total Liabilities	<u>1,144,852</u>	<u>423,987</u>

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 September 30, 2019 and December 31, 2018	4	4
Common stock, \$0.001 par value, 200,000,000 shares authorized, 3,200,000 shares issued and outstanding at September 30, 2019 and December 31, 2018	3,200	3,200
Additional paid-in capital	425,669	425,669
Retained earnings	8,567,898	7,652,882
Total stockholders' equity	<u>8,996,771</u>	<u>8,081,755</u>
Total liabilities and stockholders' equity	<u>\$ 10,141,623</u>	<u>\$ 8,505,742</u>

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 September 30,		For nine months ended September 30,	
	2019	2018	2019	2018
Revenues				
HCO fees	\$ 376,170	\$ 372,664	\$ 1,147,352	\$ 1,132,371
MPN fees	131,164	128,113	382,142	393,390
Utilization review	318,816	327,744	898,054	914,262
Medical bill review	136,793	140,084	396,870	380,293
Medical case management	804,004	624,655	2,384,967	1,822,826
Other	71,758	83,049	228,077	277,993
Total revenues	<u>1,838,705</u>	<u>1,676,309</u>	<u>5,437,462</u>	<u>4,921,135</u>
Expenses				
Depreciation and amortization	18,512	17,412	55,385	50,199
Bad debt provision	8,000	-	8,000	(35,000)
Consulting fees	57,945	91,619	207,587	255,882
Salaries and wages	789,319	644,407	2,324,860	1,763,235
Professional fees	86,241	91,080	265,457	246,293
Insurance	81,390	73,042	241,695	213,242
Outsource service fees	111,567	92,122	373,047	351,962
Data maintenance	8,726	16,661	76,345	65,890
General and administrative	187,855	209,156	612,856	560,928
Total expenses	<u>1,349,555</u>	<u>1,235,499</u>	<u>4,165,232</u>	<u>3,472,631</u>
Income from operations	489,150	440,810	1,272,230	1,448,504
Income before taxes	489,150	440,810	1,272,230	1,448,504
Income tax provision	<u>137,401</u>	<u>123,734</u>	<u>357,214</u>	<u>406,593</u>
Net income	<u>\$ 351,749</u>	<u>\$ 317,076</u>	<u>\$ 915,016</u>	<u>\$ 1,041,911</u>
Basic earnings per share:				
Earnings per share amount	\$ 0.11	\$ 0.10	\$ 0.29	\$ 0.33
Weighted average common shares outstanding	3,200,000	3,200,000	3,200,000	3,200,000
Fully diluted earnings per share:				
Earnings per share amount	\$ 0.11	\$ 0.10	\$ 0.29	\$ 0.33
Weighted average 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 Stockholders' Equity
(Unaudited)

	Preferred Stock		Common Stock		Additional paid-in capital	Retained earnings	Total stockholder's equity
	Shares	Amount	Shares	Amount			
Balances at December 31, 2017	4,000	\$ 4	3,200,000	\$ 3,200	\$ 425,669	\$ 6,293,105	\$ 6,721,978
Net Income	-	-	-	-	-	399,681	399,681
Balances at March 31, 2018	4,000	\$ 4	3,200,000	\$ 3,200	\$ 425,669	\$ 6,692,786	\$ 7,121,659
Net Income	-	-	-	-	-	325,154	325,154
Balances at June 30, 2018	4,000	\$ 4	3,200,000	\$ 3,200	\$ 425,669	\$ 7,017,940	\$ 7,446,813
Net Income	-	-	-	-	-	317,076	317,076
Balances at September 30, 2018	4,000	\$ 4	3,200,000	\$ 3,200	\$ 425,669	\$ 7,335,016	\$ 7,763,889
Balances at December 31, 2018	4,000	\$ 4	3,200,000	\$ 3,200	\$ 425,669	\$ 7,652,882	\$ 8,081,755
Net Income	-	-	-	-	-	314,563	314,563
Balances at March 31, 2019	4,000	\$ 4	3,200,000	\$ 3,200	\$ 425,669	\$ 7,967,445	\$ 8,396,318
Net Income	-	-	-	-	-	248,704	248,704
Balances at June 30, 2019	4,000	\$ 4	3,200,000	\$ 3,200	\$ 425,669	\$ 8,216,149	\$ 8,645,022
Net Income	-	-	-	-	-	351,749	351,749
Balances at September 30, 2019	4,000	\$ 4	3,200,000	\$ 3,200	\$ 425,669	\$ 8,567,898	\$ 8,996,771

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)

	Nine Months Ended September 30,	
	2019	2018
Cash flows from operating activities:		
Net income	\$ 915,016	\$ 1,041,911
Adjustments to reconcile net income to net cash from operations:		
Depreciation and amortization	55,385	50,199
Changes in operating assets and liabilities:		
Increase (decrease) in allowance for bad debt	7,997	(35,000)
(Increase) decrease in accounts receivable	(31,168)	90,505
(Increase) in prepaid income tax	(20,897)	(20,692)
Decrease (increase) in prepaid expenses	43,291	(23,341)
Decrease in receivables other	6,126	-
Increase (decrease) in accounts payable	35,724	(31,281)
Increase (decrease) in deferred rent expense	8,750	(6,447)
Increase in accrued expenses	56,339	94,344
(Decrease) increase in credit cards payable	(3,092)	1,647
(Decrease) in income tax payable	(100)	(81,715)
Increase in unearned revenue	1,896	1,302
Net cash provided from operating activities	1,075,267	1,081,432
Cash flows from investing activities:		
Purchase of furniture and office equipment	(46,653)	(30,418)
Net cash used in investing activities	(46,653)	(30,418)
Cash flows from financing activities:		
Issuance of cash dividend	-	(19,923)
Net cash used in financing activities	-	(19,923)
Increase in cash	1,028,614	1,031,091
Cash at beginning of period	7,072,507	5,815,071
Cash at end of period	\$ 8,101,121	\$ 6,846,162
Supplemental cash flow information		
Cash paid for:		
Interest	\$ -	\$ -
Income taxes paid	\$ 378,211	\$ 558,999
Non-cash investing and financing activities		
Initial recognition of operating lease right-of-use assets and operating lease liabilities	\$ 719,861	\$ -

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

Pacific Health Care Organization, Inc.
Notes to Condensed Consolidated Financial Statements
For the Nine Months Ended September 30, 2019
(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, 2018. Operating results for the nine months ended September 30, 2019, are not necessarily indicative of the results to be expected for the year ending December 31, 2019.

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

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

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

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

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

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

Pacific Health Care Organization, Inc.
Notes to Condensed Consolidated Financial Statements
For the Nine Months Ended September 30, 2019
(Unaudited)

Accounts Receivables and Bad Debt Allowance – In the normal course of business the Company extends credit to its customers on a short-term basis. Although the credit risk associated with these customers is minimal, the Company routinely reviews its accounts receivable balances and makes provisions for doubtful accounts. The Company ages its receivables by date of invoice. Management reviews bad debt reserves quarterly and reserves specific accounts as warranted or sets up a general reserve based on amounts over 90 days past due. When an account is deemed uncollectible, the Company charges off the receivable against the bad debt reserve. A considerable amount of judgment is required in assessing the realization of these receivables including the current creditworthiness of each customer and related aging of the past-due balances, including any billing disputes. In order to assess the collectability of these receivables, the Company performs ongoing credit evaluations of its customers' financial condition. Through these evaluations, the Company may become aware of a situation where a customer may not be able to meet its financial obligations due to deterioration of its financial viability, credit rating or bankruptcy. The allowance for doubtful accounts is based on the best information available to the Company and is reevaluated and adjusted as additional information is received. We evaluate the allowance based on historical write-off experience, the size of the individual customer balances, past-due amounts and the overall national economy. At September 30, 2019 and December 31, 2018, bad debt reserves of \$36,439 and \$28,442, 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 September 30, 2019 and December 31, 2018, are as follows:

	9/30/2019	12/31/2018
Customer A	27%	27%
Customer B	10%	7%
Customer C	7%	9%

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

During the period ended September 30, 2019, we had two customers that accounted for more than 10% of our total sales and three customers during the same time period in 2018. The following table sets forth details regarding the percentage of total sales attributable to our significant customers in the past two years:

	9/30/2019	9/30/2018
Customer A	26%	28%
Customer B	13%	12%
Customer C	9%	11%

Leases - Prior to January 1, 2019, the Company accounted for leases under ASC 840, Accounting for Leases. Effective January 1, 2019, the Company adopted the guidance of ASC 842, Leases, which requires an entity to recognize a right-of-use asset and a lease liability for virtually all leases. The Company adopted ASC 842 using a modified retrospective approach. As a result, the comparative financial information has not been updated and the required disclosures prior to the date of adoption have not been updated and continue to be reported under the accounting standards in effect for those periods. The adoption of ASC 842 on January 1, 2019 resulted in the recognition of operating lease right-of-use assets of \$719,861, lease liabilities for operating leases of \$719,861, and a zero cumulative-effect adjustment to accumulated deficit. The Company elected to exclude from its balance sheets recognition of leases having a term of 12 months or less ("short-term leases"). Lease expense is recognized on a straight-line basis over the lease term. See Note 2 for further information regarding the impact of the adoption of ASC 842 on the Company's financial statements.

NOTE 2- OPERATING LEASES

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

Pacific Health Care Organization, Inc.
Notes to Condensed Consolidated Financial Statements
For the Nine Months Ended September 30, 2019
(Unaudited)

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

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

	Three Months Ended September 30, 2019	Nine Months Ended September 30, 2019
Lease Cost		
Operating lease cost (included in general and administrative in the Company’s condensed consolidated statement of operations)	\$ 73,825	\$ 212,723
Other Information		
Cash paid for amounts included in the measurement of lease liabilities for the three and nine months ended September 30, 2019	\$ 79,841	\$ 202,576
Weighted average remaining lease term – operating leases (in years)	2.54 years	2.54 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 September 30, 2019
Operating leases	
Long-term right-of-use assets	\$ 621,348
Short-term operating lease liabilities	\$ 201,551
Long-term operating lease liabilities	419,797
Total operating lease liabilities	\$ 621,348

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

Year Ending	Operating Leases
2019 (remaining 3 months)	\$ 71,147
2020	281,804
2021	257,024
2022	71,359
Total lease payments	681,334
Less: Imputed interest/present value discount	(59,986)
Present value of lease liabilities	\$ 621,348

Lease expenses were \$73,825 and \$69,696 during the three months ended September 30, 2019 and 2018, respectively and \$212,723 and \$207,680 during the nine months ended September 30, 2019 and 2018, respectively.

NOTE 3 - 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 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 subsidiaries.

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. We have six wholly owned subsidiaries. In February 2001, we acquired Medex Healthcare, Inc. (“Medex”), a California corporation organized in March 1994, in a share for share exchange. Medex is in the business of managing and administering both Health Care Organizations (“HCOs”) and Managed Provider Networks (“MPNs”) in the state of California. In August 2001, we formed Industrial Resolutions Coalition, Inc. (“IRC”), a California corporation. IRC oversees and manages the Company’s Workers’ Compensation Carve-Outs services. In June 2010, we acquired Medex Legal Support, Inc. (“MLS”), a Nevada corporation incorporated in September 2009. MLS offers lien representation services and Medicare Set-Aside (“MSA”) services. In February 2012, we incorporated Medex Medical Management, Inc., (“MMM”) in the state of Nevada. 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. MMC oversees and manages the Company’s utilization review and managed bill review services. In October 2018, we incorporated Pacific Medical Holding Company, Inc. (“PMHC”) in the state of Nevada to act as a holding company for future potential acquisitions.

Business of the Company

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

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

Results of Operations**Comparison of the three months ended September 30, 2019 and 2018**

The following represents selected components of our consolidated results of operations, for the three-month periods ended September 30, 2019 and 2018, respectively, together with changes from period-to-period:

	For three months ended September 30,		Amount Change	% Change
	2019	2018		
Revenues:				
HCO fees	\$ 376,170	\$ 372,664	\$ 3,506	1%
MPN fees	131,164	128,113	3,051	2%
Medical case management	804,004	624,655	179,349	29%
Utilization review	318,816	327,744	(8,928)	(3%)
Medical bill review	136,793	140,084	(3,291)	(2%)
Other	71,758	83,049	(11,291)	(14%)
Total revenues	<u>1,838,705</u>	<u>1,676,309</u>	<u>162,396</u>	<u>10%</u>
Expense:				
Depreciation and amortization	18,512	17,412	1,100	6%
Bad debt provision	8,000	-	8,000	100%
Consulting fees	57,945	91,619	(33,674)	(37%)
Salaries and wages	789,319	644,407	144,912	22%
Professional fees	86,241	91,080	(4,839)	(5%)
Insurance	81,390	73,042	8,348	11%
Outsource service fees	111,567	92,122	19,445	21%
Data maintenance	8,726	16,661	(7,935)	(48%)
General and administrative	187,855	209,156	(21,301)	(10%)
Total expenses	<u>1,349,555</u>	<u>1,235,499</u>	<u>114,056</u>	<u>9%</u>
Income from operations	489,150	440,810	48,340	11%
Income before taxes	489,150	440,810	48,340	11%
Income tax provision	137,401	123,734	13,667	11%
Net income	<u>\$ 351,749</u>	<u>\$ 317,076</u>	<u>\$ 34,673</u>	<u>11%</u>

[Table of Contents](#)

Revenue

Total revenues during the three-month period ended September 30, 2019, increased 10% to \$1,838,705 compared to \$1,676,309 during the three-month period ended September 30, 2018.

During the third quarter 2019, HCO, MPN, and medical case management increased 1%, 2%, and 29% respectively, while utilization review, medical bill review and other fees decreased by 3%, 2% and 14%, respectively. Other revenues consisted of revenues derived primarily from network access fees, lien representation services, legal support services, workers' compensation carve out revenues and Medicare set-aside revenues.

HCO Fees

During the three-month periods ended September 30, 2019 and 2018, HCO fee revenue was \$376,170 and \$372,664, respectively. The 1% increase in HCO revenue was attributable to the addition of two new customers partially offset by the loss of a customer during the third quarter of 2019. The Medex Health Care Organization (HCO) program utilizes an exclusive, specialized 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 September 30, 2019 and 2018, were \$131,164 and \$128,113, respectively, an increase of 2%, due to an increase in the numbers of claims and MPN program fees and the addition of a new 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.

Medical Case Management

During the three months ended September 30, 2019 and 2018, medical case management revenue was \$804,004 and \$624,655, respectively. The increase in medical case management revenue of \$179,349 was primarily from two existing customers adding medical case management services and increased medical management services on new and existing claims with current customers. Medical case management keeps medical treatment claims progressing to a resolution and assures treatment plans are aligned from a medical perspective. Medical oversight is a collaborative process that assesses plans, implements, coordinates, monitors and evaluates the options and services required to meet an injured worker's health needs. 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 employer/clients. 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 a faster claim closure for our customers.

Utilization Review

During the three-month periods ended September 30, 2019 and 2018, utilization review revenue was \$318,816 and \$327,744, respectively. The decrease of \$8,928 in the 2019 period was primarily attributable to the loss of a client and decreased utilization review fees due to a current customer bringing a portion of utilization review in house. 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 can deliver utilization review services that cut overhead costs for the self-insured clients, insurance companies and the public entities we service.

Medical Bill Review

During the three-month period ended September 30, 2019, medical bill review revenue was \$136,793 and \$140,084 respectively. Medical bill review revenue decreased 2% when compared to the same period a year earlier. This decrease was mainly caused by processing fewer medical bills from existing customers. 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 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 network savings.

Other

Other fees consist of revenue derived from network access fees, lien representation, legal support services, Medicare set-aside and workers' compensation carve-out services. Other fee revenue for three-month periods ended September 30, 2019 and 2018, was \$71,758 and \$83,049, respectively. The decrease of \$11,291 was the result of fewer customers accessing our network. We recorded no lien representation and legal support services during the three-month period ended September 30, 2019.

Expenses

Total expenses for the three months ended September 30, 2019 and 2018, were \$1,349,555 and \$1,235,499, respectively. The increase of \$114,056 was the result of increases in depreciation and amortization, bad debt provision, salaries and wages, insurance and outsource service fees partially offset by decreases in consulting fees, professional fees, data maintenance expense, and general and administrative expense.

Depreciation and Amortization

During the three-month period ended September 30, 2019, we recorded depreciation and amortization expense of \$18,512 compared to \$17,412 during the comparable 2018 period. The increase in depreciation and amortization was primarily attributable to the purchase of new computers, equipment, and software.

Bad Debt Provision

During the three-month period ended September 30, 2019, bad debt provision increased to \$8,000 from \$0 during the three-month period ended September 30, 2018. This increase was primarily the result of several customers with outstanding balances over 90 days during fiscal 2019.

Consulting Fees

During the three months ended September 30, 2019, consulting fees decreased 37% to \$57,945 compared to \$91,619 during the three months ended September 30, 2018. This decrease was primarily the result of the termination of a consultant.

Salaries and Wages

During the three-month period ended September 30, 2019, salaries and wages increased 22% to \$789,319 compared to \$644,407 during the same period in 2018. The increase in salaries and wages of \$144,912 was primarily the result of hiring a Director of Healthcare and other employees for various departments.

Professional Fees

For the three months ended September 30, 2019, we incurred professional fees of \$86,241 compared to \$91,080 during the three months ended September 30, 2018. The \$4,839 decrease in professional fees was primarily the decrease in medical case management fees partially offset by increases in legal, accounting and other professional fees.

Insurance

During the three-month period ended September 30, 2019, we incurred insurance expenses of \$81,390, an 11% increase over the same three-month period in 2018. This increase in insurance expense was primarily attributable to an increase in group health insurance premiums when compared to the same period in 2018.

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 medical case management fees and typically tends to increase and decrease in correspondence with increases and decreases in demand for those services. We incurred \$111,567 and \$92,122 in outsource service fees during the three-month periods ended September 30, 2019 and 2018, respectively. The increase of \$19,445 was primarily the result of increases in outsource services required for utilization review, medical bill review and medical 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 field medical case management services we provide in the future.

Data Maintenance

During the three-month periods ended September 30, 2019 and 2018, data maintenance fees were \$8,726 and \$16,661, respectively. The decrease of \$7,935 was primarily the result of lower levels of HCO and MPN notification fees realized for new and existing customers during the three-month period ended September 30, 2019 when compared to the same period in 2018. Data maintenance fees tend to fluctuate from month to month depending on when new customers are enrolled, when the annual renewal of existing customer notification is due, and how many new employees our customers enroll in our HCO or MPN program.

General and Administrative

During the three-month period ended September 30, 2019, general and administrative expenses decreased 10% to \$187,855 when compared to the three-month period ended September 30, 2018. This decrease of \$21,301 was primarily attributable to decreases in advertising, auto expense, employment agency fees partially offset by increases in bank charges, dues and subscriptions, education, postage and delivery expense.

Income from Operations

As a result of the 10% increase in total revenue during the three-month period ended September 30, 2019, which was partially offset by the 9% increase in total expenses during the same period, our income from operations increased by 11% during the three-month period ended September 30, 2019, when compared to the same period in 2018.

Income Tax Provision

We realized income before taxes of \$489,150 and \$440,810 during the three-month periods ended September 30, 2019 and 2018, respectively, an increase of \$48,340. We similarly realized a \$13,667, or an 11%, increase in our income tax provision. The increase in the provision of income taxes was the result of the increase in income before taxes.

Net Income

During the three-month period ended September 30, 2019, total revenues of \$1,838,705 was 10% higher when compared to the same period in 2018. This increase in total revenues was partially offset by a 9% increase in total expenses, resulting in an 11% increase in income from operations compared to the three months ended September 30, 2018. Correspondingly, we realized net income of \$351,749 for the three-month period ended September 30, 2019, which reflects an 11% increase compared to the three-month period ended September 30, 2018.

Comparison of nine months ended September 30, 2019 and 2018

The following represents selected components of our consolidated results of operations, for the nine-month periods ended September 30, 2019 and 2018, respectively, together with changes from period-to-period:

	For nine months ended September 30,		Amount Change	% Change
	2019	2018		
Revenues:				
HCO fees	\$ 1,147,352	\$ 1,132,371	\$ 14,981	1%
MPN fees	382,142	393,390	(11,248)	(3%)
Medical case management	2,384,967	1,822,826	562,141	31%
Utilization review	898,054	914,262	(16,208)	(2%)
Medical bill review	396,870	380,293	16,577	4%
Other	228,077	277,993	(49,916)	(18%)
Total revenues	<u>5,437,462</u>	<u>4,921,135</u>	<u>516,327</u>	<u>10%</u>
Expense:				
Depreciation and amortization	55,385	50,199	5,186	10%
Bad debt provision	8,000	(35,000)	43,000	123%
Consulting fees	207,587	255,882	(48,295)	(19%)
Salaries and wages	2,324,860	1,763,235	561,625	32%
Professional fees	265,457	246,293	19,164	8%
Insurance	241,695	213,242	28,453	13%
Outsource service fees	373,047	351,962	21,085	6%
Data maintenance	76,345	65,890	10,455	16%
General and administrative	612,856	560,928	51,928	9%
Total expenses	<u>4,165,232</u>	<u>3,472,631</u>	<u>692,601</u>	<u>20%</u>
Income from operations	1,272,230	1,448,504	(176,274)	(12%)
Income before taxes	1,272,230	1,448,504	(176,274)	(12%)
Income tax provision	<u>357,214</u>	<u>406,593</u>	<u>(49,379)</u>	<u>(12%)</u>
Net income	<u>\$ 915,016</u>	<u>\$ 1,041,911</u>	<u>\$ (126,895)</u>	<u>(12%)</u>

Revenue

Total revenues during the nine-month period ended September 30, 2019, increased 10% to \$5,437,462 compared to \$4,921,135 during the nine-month period ended September 30, 2018.

During the first nine-months of 2019, HCO, medical case management and medical bill review increased 1%, 31% and 4% respectively, while MPN, utilization review, and other revenue decreased by 3%, 2%, and 18%, respectively. Other revenues consisted of revenues derived primarily from network access fees, lien representation services, legal support services, workers' compensation carve-out revenues and Medicare set-aside revenues.

HCO fees

During the nine-month periods ended September 30, 2019 and 2018, HCO fee revenue was \$1,147,352 and \$1,132,371, respectively. The 1% increase in HCO revenue was primarily attributable to new customers and increased HCO employee enrollment from existing clients, which was partially offset by a decrease in claim network fees due to fewer injuries reported, and a loss of a customer when compared to the same period in 2018.

[Table of Contents](#)

MPN fees

MPN fee revenue for the nine-month periods ended September 30, 2019 and 2018, was \$382,142 and \$393,390 respectively, a decrease of 3%, resulting from the loss of a customer partially offset by increased claim network fees due to an increase in workers' compensation injuries.

Medical Case Management

During the nine-months ended September 30, 2019 and 2018, medical case management revenue was \$2,384,967 and \$1,822,826, respectively. The 31% increase in medical case management revenue was primarily the result of adding two new customers during 2019 and increases in the assignment of claims for medical case management from existing customers.

Utilization Review

During the nine-month periods ended September 30, 2019 and 2018, utilization review revenue was \$898,054 and \$914,262, respectively. The decrease of \$16,208 in the 2019 period was attributable to a loss of a customer and decreased volume from existing customers which was only partially offset by the addition of two new customers.

Medical Bill Review

During the nine-month period ended September 30, 2019 and 2018, medical bill review revenue was \$396,870 and \$380,293, respectively. This 4% increase was due to processing more hospital bills and medical bills from existing customers due to an increase in medical treatment for existing claims and more injuries despite reductions in medical bills.

Other

Other fees consist of revenue derived from network access fees, lien representation, legal support services, Medicare set-aside and workers' compensation carve-out services. Other fee revenue for the nine-month periods ended September 30, 2019 and 2018, was \$228,077 and \$277,993, respectively. The decrease of \$49,916 was primarily the result of decreased network access fees and Medicare set-aside referrals and due to a client catching up on a backlog of Medicare set-aside claims during the 2018 period. We did not record any revenue for lien representation and legal support services.

Expenses

Total expenses for the nine-months ended September 30, 2019 and 2018, were \$4,165,232 and \$3,472,631, respectively. The increase of \$692,601 was the result of increases in depreciation and amortization, salaries and wages, professional fees, insurance, outsource service fees, data maintenance, and general and administrative expense partially offset by decreases bad debt provision and consulting fees.

Depreciation and Amortization

During the nine-month period ended September 30, 2019, we recorded depreciation and amortization expense of \$55,385 compared to \$50,199 during the comparable 2018 period. The increase in depreciation and amortization was primarily attributable to the purchase of new computers, equipment, and software during the nine-months ended September 30, 2019. New computers, equipment, and software were purchased due to Microsoft's end of life for Windows 7 at the end of 2019.

Bad Debt Provision

During the nine-month period ended September 30, 2019, bad debt provision increased by \$43,000 compared to the nine-month period ended September 30, 2018. This increase was primarily the result of several customers with outstanding balances over 90 days.

Consulting Fees

During the nine-months ended September 30, 2019, consulting fees decreased to \$207,587 from \$255,882, when compared the nine months ended September 30, 2018. This 19% decrease was mainly the result of terminating a consultant partially offset by hiring a consultant to assist with our insurance acquisition search.

Salaries and Wages

During the nine-month period ended September 30, 2019, salaries and wages increased 32% to \$ 2,324,860 from \$1,763,235 during the same period in 2018. This increase was primarily the result of hiring a Director of Healthcare, and other departmental employees together with merit increases, and the reversal on July 1, 2018, of a 10% pay cut for certain employees and executives.

Professional Fees

For the nine-months ended September 30, 2019, we incurred professional fees of \$265,457 compared to \$246,293 compared during the nine months ended September 30, 2018. The increase of \$19,164 in professional fees was primarily the result of an increase in fees paid for accounting, legal, and other consulting fees, partially offset by decreases in fees for medical case management.

Insurance

During the nine-month period ended September 30, 2019, we incurred insurance expenses of \$241,695, a 13% increase over the same nine-month period in 2018. The increase in insurance expense was primarily attributed to medical insurance premiums for new employees and increases in medical insurance premiums for existing employees during the nine-month period ended September 30, 2019 compared to the same period in 2018.

Outsource Service Fees

Outsource service fees consist of costs incurred by our subsidiaries in outsourcing utilization review, medical bill review, Medicare set-aside services, field medical case management services, and typically tends to fluctuate in correspondence with demand for those services. We incurred \$373,047 and \$351,962 in outsource service fees during the nine-month periods ended September 2019 and 2018, respectively. The increase of \$21,085 was primarily the result of increases in outsource services required for utilization review and medical bill review, partially offset by decreases in Medicare set-aside services and field medical 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 medical case management services we provide in the future.

Data Maintenance

During the nine-month periods ended September 30, 2019 and 2018, data maintenance fees were \$76,345 and \$65,890, respectively. The increase of \$10,455 was primarily the result of adding new customers, which was partially offset by the loss of two customers during the nine-month period ended September 30, 2019.

General and Administrative

During the nine-month period ended September 30, 2019, general and administrative expense increased 9% to \$612,856 when compared to the nine-month period ended September 30, 2018. This increase of \$51,928 was primarily attributable to increases in auto expense, bank charges, dues and subscriptions, licenses and permits, parking, postage and delivery, miscellaneous expense, office rent expense, and travel expense, partially offset by decreases in education expense, employment agency fees, equipment/repairs, printing and reproduction, tax penalty, reference material, telephone expense, charitable contributions, IT enhancement, postage, travel and entertainment expense, and other miscellaneous general administrative expense.

Income from Operations

As a result of the 10% increase in total revenue during the nine-month period ended September 30, 2019, coupled with a 20% increase in total expenses, our income from operations before taxes decreased 12% from \$1,448,504 to \$1,272,230 compared to the same period in 2018.

Income Tax Provision

We realized income before taxes of \$1,272,230 and \$1,448,504 during the nine-month periods ended September 30, 2019 and 2018, respectively. The decrease in income before taxes of \$176,274, correspondingly, resulted in the provision for income taxes of \$357,214 during the nine-month period ending September 30, 2019, compared to \$406,593 for the same period a year earlier.

Net Income

During the nine-month period ended September 30, 2019, total revenues of \$5,437,462 was 10% higher when compared to the same period in 2018. This increase in total revenues together with an increase of 20% in total expenses resulted in a 12% decrease in income from operations. Correspondingly, we realized net income of \$915,016 for the nine-month period ended September 30, 2019, a 12% decrease compared to the nine-month period ended September 30, 2018.

Liquidity and Capital Resources

As of September 30, 2019, we had cash on hand of \$8,101,121 compared to \$7,072,507 at December 31, 2018. The \$1,028,614 increase was the result of net cash provided by our operating activities of \$1,075,267, partially offset by cash used in investing activities of \$46,653.

Cash flow from operating activities was primarily the result of increases in depreciation and amortization, bad debt provision, accounts payable, deferred rent, accrued expenses and unearned revenue and decreases in prepaid expenses and accounts receivable other, partially offset by increases in account receivables and prepaid income and decreases in credit card payables and income tax payables.

We used \$46,653 in investing activities to purchase computers, furniture and equipment. No cash was used for financing activities in 2019. 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 2019 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 but have not yet 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 nine months ended September 30, 2019, cash was primarily used to fund operations. We had a net increase in cash of \$1,028,614 during the nine months ended September 30, 2019. See below for additional information.

	For the nine months ended September	
	2019	2018
	(unaudited)	(unaudited)
	<u> </u>	<u> </u>
Net cash provided from operating activities	\$ 1,075,267	\$ 1,081,432
Net cash used in investing activities	(46,653)	(30,418)
Net cash used in financing activities	<u> -</u>	<u> (19,923)</u>
 Net increase in cash	 <u>\$ 1,028,614</u>	 <u>\$ 1,031,091</u>

[Table of Contents](#)

During the nine months ended September 30, 2019 and 2018, net cash provided by operating activities was \$1,075,267 and \$1,081,432, respectively. As discussed herein, we realized net income of \$915,016 during the nine months ended September 30, 2019, compared to net income of \$1,041,911 during the nine months ended September 30, 2018.

Net cash used in investing activities was \$46,653 and \$30,418 during the nine-month periods ended September 30, 2019 and 2018, respectively. During the nine-month periods ended September 30, 2019 and 2018, net cash used in investing activities was used to purchase computer equipment, equipment and software.

Net cash used in financing activities during the nine-month periods ended September 30, 2019 and 2018 was \$0 and \$19,923, respectively. During the 2018 period certain shareholders submitted the necessary paperwork to receive payment of the cash dividend declared on their shares in 2015, no shareholders made the necessary submissions to receive cash dividends during the 2019 period.

Summary of Material Contractual Commitments

The following is a summary of our material contractual commitments as of September 30, 2019.

	Payments Due By Period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Operating Leases:					
Operating Leases – Equipment	\$ 15,506	\$ 15,506	\$ -	\$ -	\$ -
Office Leases	\$ 665,828	269,200	396,628	-	-
Less: Imputed interest/present value discount	\$ (59,986)	\$ (15,481)	\$ (44,505)	\$ -	\$ -
Total Operating Leases	<u>\$ 621,348</u>	<u>\$ 269,225</u>	<u>\$ 352,122</u>	<u>\$ -</u>	<u>\$ -</u>

Off-Balance Sheet Financing Arrangements

As of September 30, 2019, 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 of 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 September 30, 2019, 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 September 30, 2019, 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, 2018. 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:

<u>Exhibit Number</u>	<u>Title of Document</u>
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 September 30, 2019, 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: November 14, 2019

/s/ Tom Kubota
Tom Kubota
Chief Executive Officer

Date: November 14, 2019

/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: November 14, 2019

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: November 14, 2019

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 September 30, 2019, 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: November 14, 2019

/s/ Tom Kubota
Tom Kubota
Chief Executive Officer

Date: November 14, 2019

/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.