
**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, 2013

or

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

Commission File Number 000-50009

PACIFIC HEALTH CARE ORGANIZATION, INC.

(Exact name of registrant as specified in its charter)

Utah
(State or other jurisdiction of
incorporation or organization)

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

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

92660
(Zip Code)

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

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

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

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

Large accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company)

Accelerated filer
Smaller reporting company

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 11, 2013, the registrant had 802,424 shares of common stock, par value \$0.001, issued and outstanding.

PACIFIC HEALTH CARE ORGANIZATION, INC.
FORM 10-Q
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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Pacific Health Care Organization, Inc.
Condensed Consolidated Balance Sheets

| | September 30, 2013 (Unaudited) | December 31, 2012 |
|---|---|------------------------------|
| ASSETS | | |
| Current Assets | | |
| Cash | \$ 933,109 | \$ 479,674 |
| Accounts receivable, net of allowance of \$23,852 and \$20,000 | 1,525,164 | 1,332,499 |
| Prepaid income taxes | 597,922 | - |
| Receivable other | 20 | 7,344 |
| Prepaid expenses | 147,855 | 52,988 |
| Total current assets | <u>3,204,070</u> | <u>1,872,505</u> |
| Property and equipment, net | | |
| Computer equipment | 130,717 | 127,667 |
| Furniture & fixtures | 83,708 | 83,708 |
| Office equipment | 26,560 | 26,560 |
| Office equipment under capital lease | 63,923 | 63,923 |
| Total property & equipment | 304,908 | 301,858 |
| Less: accumulated depreciation and amortization | (166,196) | (133,573) |
| Net property & equipment | <u>138,712</u> | <u>168,285</u> |
| Other assets | | |
| | 8,158 | 8,158 |
| Total assets | <u>\$ 3,350,940</u> | <u>\$ 2,048,948</u> |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current Liabilities | | |
| Accounts payable | \$ 124,980 | \$ 120,787 |
| Accrued expenses | 273,075 | 98,074 |
| Income tax payable | 565,900 | 249,162 |
| Current obligation under capital lease | 14,743 | 19,294 |
| Deferred rent expense | 22,322 | 24,951 |
| Deferred tax liability | 5,659 | 5,659 |
| Unearned revenue | - | 2,443 |
| Total current liabilities | <u>1,006,679</u> | <u>520,370</u> |
| Long term liabilities | | |
| Noncurrent obligation under capital lease | 11,537 | 21,324 |
| Total liabilities | <u>1,018,216</u> | <u>541,694</u> |
| Commitments and Contingencies | | |
| | - | - |
| Shareholders' Equity | | |
| Preferred stock; 5,000,000 shares authorized at \$0.001 par value; zero shares issued and outstanding | - | - |
| Common stock, 50,000,000 shares authorized at \$0.001 par value; 802,424 shares issued and outstanding | 802 | 802 |
| Additional paid-in capital | 623,629 | 623,629 |
| Retained earnings | 1,708,293 | 882,823 |
| Total stockholders' equity | <u>2,332,724</u> | <u>1,507,254</u> |
| Total liabilities and stockholders' equity | <u>\$ 3,350,940</u> | <u>\$ 2,048,948</u> |

The accompanying notes are an integral part of these 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, | |
|--|---|-------------------|--|-------------------|
| | 2013 | 2012 | 2013 | 2012 |
| Revenues: | | | | |
| HCO fees | \$ 210,039 | \$ 301,077 | \$ 689,575 | \$ 691,574 |
| MPN fees | 223,625 | 205,238 | 638,841 | 569,584 |
| Other | 1,269,906 | 820,486 | 3,351,872 | 2,255,011 |
| Total revenues | <u>1,703,570</u> | <u>1,326,801</u> | <u>4,680,288</u> | <u>3,516,169</u> |
| Expenses: | | | | |
| Depreciation & amortization | 10,918 | 7,153 | 32,623 | 19,605 |
| Bad debt provision | 10,000 | - | 10,000 | - |
| Consulting fees | 81,871 | 143,326 | 267,125 | 354,019 |
| Salaries & wages | 517,400 | 440,890 | 1,547,197 | 1,236,088 |
| Professional fees | 131,157 | 77,558 | 324,014 | 195,833 |
| Insurance | 68,858 | 54,854 | 189,455 | 152,761 |
| Outsource service fees | 202,960 | 114,550 | 511,374 | 259,972 |
| Data maintenance | 9,355 | 31,285 | 46,178 | 51,969 |
| General & administrative | 108,759 | 143,285 | 359,985 | 356,349 |
| Total expenses | <u>1,141,278</u> | <u>1,012,901</u> | <u>3,287,951</u> | <u>2,626,596</u> |
| Income from operations | 562,292 | 313,900 | 1,392,337 | 889,573 |
| Other income (expense): | | | | |
| Interest income | 1 | 170 | 460 | 551 |
| Rental income | - | 250 | - | 1,750 |
| Interest (expense) | (549) | (173) | (1,909) | (604) |
| Total other income (expense) | <u>(548)</u> | <u>247</u> | <u>(1,449)</u> | <u>1,697</u> |
| Income before taxes | 561,744 | 314,147 | 1,390,888 | 891,270 |
| Income tax provision | <u>228,702</u> | <u>127,574</u> | <u>565,418</u> | <u>361,944</u> |
| Net income | <u>\$ 333,042</u> | <u>\$ 186,573</u> | <u>\$ 825,470</u> | <u>\$ 529,326</u> |
| Basic and fully diluted earnings per share: | | | | |
| Earnings per share amount | \$.42 | \$.23 | \$ 1.03 | \$.66 |
| Weighted average common shares outstanding | 802,424 | 802,424 | 802,424 | 802,424 |

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

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

| | Nine months ended September 30, | |
|--|------------------------------------|------------|
| | 2013 | 2012 |
| Cash flows from operating activities: | | |
| Net income | \$ 825,470 | \$ 529,326 |
| Adjustments to reconcile net income to net cash: | | |
| Depreciation and amortization | 32,623 | 19,604 |
| Changes in operating assets & liabilities | | |
| (Increase) in accounts receivable | (192,665) | (835,603) |
| Decrease in receivable other | 7,324 | - |
| (Increase) in prepaid income tax | (597,922) | (61,511) |
| Decrease in commission draw | - | 29,350 |
| (Increase) decrease in prepaid expenses | (94,867) | 4,820 |
| (Decrease) increase in accounts payable | 4,193 | (53,713) |
| Increase in accrued expenses | 175,001 | 113,446 |
| Increase in income tax payable | 316,738 | 361,944 |
| (Decrease) increase in deferred rent expense | (2,629) | 3,129 |
| (Decrease) in unearned revenue | (2,443) | (3,046) |
| Net cash provided by operating activities | 470,823 | 107,746 |
| Cash flows from investing activities | | |
| Purchases of furniture & equipment | (3,050) | (63,551) |
| Net cash used by investing activities | (3,050) | (63,551) |
| Cash flows from financing activities | | |
| Payment of obligation under capital lease | (14,338) | (4,900) |
| Net cash used in financing activities | (14,338) | (4,900) |
| Increase in cash | 453,435 | 39,295 |
| Cash at beginning of period | 479,674 | 368,459 |
| Cash at end of period | \$ 933,109 | \$ 407,754 |
| Supplemental Cash Flow Information | | |
| Cash paid for: | | |
| Interest | \$ 2,980 | \$ 604 |
| Taxes paid | \$ 846,502 | \$ 61,511 |

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

Pacific Health Care Organization, Inc.
Notes to Condensed Consolidated Financial Statements
For the Nine Months Ended September 30, 2013

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 (“SEC”). Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted in accordance with such rules and regulations. The information furnished in the 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. Although management believes the disclosures and information presented are adequate to make the information not misleading, it is suggested that these interim condensed 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, 2012. Operating results for the nine-months ended September 30, 2013 are not necessarily indicative of the results to be expected for the year ending December 31, 2013.

NOTE 2 – SUBSEQUENT EVENTS

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

Item 2. Management's Discussion and Analysis of Financial Condition 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 ("Securities Act") and Section 21E of the Securities Exchange Act of 1934, as amended, ("Exchange Act") that are based on our management's beliefs and assumptions and on information currently available to our management. 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, actions, intentions, plans, strategies and objectives. Without limiting the foregoing, words such as "may," "hope," "will," "expect," "believe," "anticipate," "estimate," "project" or "continue" or comparable terminology are intended to identify forward-looking statements. These statements by their nature involve substantial risks 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; competition within our industry, including competition from much larger competitors; 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; price increases or 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. The 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. We undertake no obligation to amend this report or revise publicly these forward-looking statements (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 financial statements and the related notes contained elsewhere in this report and in our other filings with the Securities and Exchange Commission.

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

Overview

We are a specialty workers' compensation managed care company providing a range of services primarily to California employers and claims administrators. We do have one customer for whom we currently provide MBR services in thirteen states including California. Workers' compensation costs continue to increase due to rising medical costs, inflation, fraud and other factors. Medical and indemnity costs associated with workers' compensation in the state of California are billions of dollars annually. Our focus goes beyond the medical cost of claims. Our goal is to reduce the entire cost of the claim, including medical, legal and administrative costs. Through our wholly-owned subsidiaries we provide a range of effective workers' compensation cost containment services, including but not limited to:

- Health Care Organizations ("HCOs")
- Medical Provider Networks ("MPNs")
- HCO + MPN
- Workers' Compensation Carve-Outs
- Utilization Review ("UR")
- Medical Bill Review ("MBR")
- Nurse Case Management ("NCM")

Health Care Organizations

HCOs are networks of health care professionals specializing in the treatment of workplace injuries and in back-to-work rehabilitation and training. HCOs were created to appeal to employees, while providing substantial savings to the employer clients. In most cases, the HCO program gives the employer client 180 days of medical control in a provider network within which the employer client has the ability to direct the claim. The injured worker may change physicians once, but may not leave the network. The increased length in control is designed to decrease the incidence of fraudulent claims and disability awards and is also based upon the notion that if there is more control over medical treatment there will be more control over getting injured workers back on the job and therefore, more control over the cost of claims and workers' compensation premiums.

Our subsidiary Medex holds two HCO licenses. Through these licenses we cover the entire state of California. We offer injured workers a choice of enrolling in an HCO with a network managed by primary care providers requiring a referral to specialists or a second HCO where injured workers do not need any prior authorization to be seen and treated by specialists.

Under the HCO guidelines all HCOs are required to pay certain annual fees to the California Division of Workers' Compensation ("DWC"). This annual fee is based on the number of employees enrolled in the HCO. HCO guidelines also impose certain reporting and information delivery requirements upon HCOs.

Medical Provider Networks

By virtue of our certification as an HCO, we are statutorily qualified as an approved MPN. Like an HCO, an MPN is a network of health care professionals, but MPN networks do not require the same level of medical expertise in treating work place injuries. Under an MPN program, the employer client dictates which physician the injured employee will see for the initial visit. Thereafter, the employee can choose to treat with any physician within the MPN network. Under the MPN program, however, for as long as the employee seeks treatment for his injury, he can only seek treatment from physicians within the MPN network.

Unlike HCOs, MPNs are not assessed annual fees and have fewer reporting and information delivery requirements. As a result, the administrative costs associated with administering an MPN program are lower, which allows MPNs to market their services at a lower cost than HCOs.

HCO + MPN

As a licensed HCO and MPN, in addition to offering HCO and MPN programs, we are able to offer our clients a combination of the HCO and MPN programs. Under this plan model an employer can enroll its employees in the HCO program, and then prior to the expiration of the 90 or 180 day treatment period under the HCO program, the employer can enroll the employee into the MPN program. This allows employers to take advantage of both programs. We believe that we are currently the only entity that offers both programs together in a combination program.

Workers' Compensation Carve-outs

Through IRC we seek to create legal agreements for the implementation of Workers' Compensation Carve-Outs for California employers with collective bargaining units, and the administration of such programs within the statutory and regulatory requirements. The California legislature permits employers and employees to engage in collective bargaining over alternative systems to resolve disputes in the workers' compensation context. These systems are called carve-outs because the employers and employees covered by such collective bargaining agreements are carved out from the state workers' compensation system.

Utilization Review

Utilization review includes utilization review or utilization management functions that prospectively, retrospectively, or concurrently review and approve, modify, delay, or deny, based in whole or in part on medical necessity to cure and relieve, treatment recommendations by physicians, prior to, retrospectively, or concurrent with the provision of such medical treatment services pursuant to California Workers' Compensation law, or other jurisdictional statutes.

Medical Bill Review

Medical bill review refers to professional analysis of medical provider, services, or equipment billing to ascertain the proper reimbursement. Such services include, but are not limited to, coding review and rebundling, reasonable and customary review, fee schedule analysis, out-of-network bill review, pharmacy review, PPO management, and repricing.

Nurse Case Management

Nurse case management is a collaborative process that assesses, plans, implements, coordinates, monitors, and evaluates the options and services required to meet an injured worker's health needs. Our nurse case managers use communication and available resources to promote quality, cost-effective outcomes with the goal of returning the injured worker to gainful employment and maximum medical improvement as soon as medically appropriate.

We provide UR, MBR and NCM services to self-insured employers, insurance companies and the public sector.

Through our wholly-owned subsidiary IRC we participate in the business of creating legal agreements for the implementation and administration of Carve-Outs for California employers with collective bargaining units.

We offer our HCO and MPN services through Medex. IRC participates in the Carve-Outs business. MMC oversees and manages our UR and MBR businesses and MMM oversees our NCM services.

Results of Operations

Comparison of the three months ended September 30, 2013 and 2012

Revenue

The total number of employee enrollees increased 24% during three months ended September 30, 2013 compared to September 30, 2012. Total revenues increased 28% to \$1,703,570. As of September 30, 2013 we had approximately 548,000 total enrollees. Enrollment consisted of approximately 79,000 HCO enrollees and 469,000 MPN enrollees. By comparison as of September 30, 2012 we had approximately 442,000 total enrollees, including approximately 76,000 HCO enrollees and approximately 366,000 MPN enrollees. The net increase of HCO and MPN enrollment of 3,000 and 103,000, respectively, was primarily the result of existing major HCO and MPN customer increasing their enrollments from September 2012 through September 2013. The major reason for the growth in other revenues was the continuing growth in MBR, UR and NCM revenues.

Although we realized growth in our revenues during the three months ended September 30 2013 compared to the same period in 2012, there are no assurances that we will continue to experience growth during 2013 at a rate similar to the growth rate we experienced in 2012 and the third quarter of 2013.

Our business generally has a long sales cycle, typically in excess of one year. Once we have established a customer relationship, our revenue adjusts with the growth or retraction of our customers' managed headcount volume. New customers are added throughout the year and other customers terminate from the program for a variety of reasons.

In the current economic environment, we anticipate businesses will continue to seek ways to further reduce their workers' compensation program costs. Even though the HCO and MPN programs have been shown to create a favorable return on investment for employers, (as our services are a significant component of the employers' loss prevention programs), it can be a challenge to justify our fees to our customers. In order to convince employers that HCO and/or MPN fees are well-spent, we must continue to provide a framework for expeditiously returning employees back to work at the lowest cost. As a result, we may experience some client turnover in the form of existing employer clients seeking to terminate or renegotiate the scope and terms of existing services. We also anticipate our market may shrink as some employers seek to reduce their costs by managing their workers' compensation care services in-house.

HCO Fees

During the three months ended September 30, 2013 and 2012 HCO fee revenues were \$210,039 and \$301,077, respectively. HCO enrollment increased 4% during the quarter ended September 30, 2013 compared to a 30% decrease in revenue from HCO fees when compared to the same period last year. This was the result of lowering our HCO fees structure to certain existing customers and offering bundled services to include MBR, UR and NCM services to a number of new clients, which resulted in increased enrollment, but lower HCO fees revenues.

MPN Fees

MPN fee revenues for the three months ended September 30, 2013 were \$223,625 compared to \$205,238 for the three months ended September 30, 2012. During the quarter ended September 30, 2013 we realized a 28% increase in MPN enrollment (from approximately 366,000 enrollees to approximately 469,000 enrollees.) Factors such as differing fee terms, unbundling of services, price competition and other similar factors as compared to three months ended September 30, 2012 resulted in only a 9% increase in MPN revenues compared to the three months ended September 30, 2012.

Other Fees

Other fees consist of revenues derived from MBR, NCM, UR, lien representation services and network claims repricing services provided by Medex, MMC, MMM and MLS. Other fee revenues for the three months ended September 30, 2013 and 2012 were \$1,269,906 and \$820,486, respectively.

MBR and UR Fees

Our MBR and UR revenues increased by \$50,708 and \$358,899 – to \$345,254 and \$577,875; respectively, during the third fiscal quarter 2013 when compared to the same period of fiscal 2012. MBR and UR service revenues grew largely as a result of increased marketing efforts by MMC in these areas of our business.

NCM Fees

NCM revenues increased \$88,901 to \$309,272 during the quarter ended September 30, 2013 when compared to the same period of 2012, resulting primarily from increased customer employee enrollment primarily by existing customers. We retain nurses on our staff who, at the request of our customers, will review the medical portion of a claim on behalf of our employer clients, claims managers and injured workers. We offer nurse case management services to our customers on an optional basis. We charge an additional fee for nurse case management services.

Network Repricing Fees

Our network claims repricing fees are generated from certain customers who have access to our network and split with Medex their cost savings generated from their PPO. Network claims repricing fees decreased from \$62,160 during the three months ended September 30, 2013 to \$37,505 during the three months ended September 30, 2012 as three customers reported lower levels of network claims repricing fees. This resulted in a decrease in fees of \$24,655 when compared to the three months ended September 30, 2012.

Expenses

Total expenses for the three months ended September 30, 2013 and 2012 were \$1,141,278 and \$1,012,901, respectively. The increase of \$128,377 was the result of increases in bad debt, depreciation, outsource service fees, salaries and wages, professional fees and insurance, partially offset by decreases in consulting fee, data maintenance and general administrative expenses.

Bad Debt

During the three months ended September 30, 2013 we recorded bad debt expense of \$10,000 to cover potential uncollectible receivables from several customers who were unable to reconcile their outstanding past due receivables with us. Bad debt expense included a reclassification \$2,500 which was recorded as general administrative expense at the end of the three months period ended June 30, 2013. During the three months ended September 30, 2012 there was no bad debt expense recorded.

Consulting Fees

During the three months ended September 30, 2013 consulting fees decreased to \$81,871 from \$143,326 during the three months ended September 30, 2012. This decrease of \$61,455 was due mainly to the termination of our lien consultant as of January 31, 2013 and the consultant in charge of our MMC operations in July 2012.

In the event we see an increased level of services requested from our customers, especially for nurse case management services which would require us to engage additional nurse case managers, we would expect to experience higher consulting fees.

Salaries and Wages

Salaries and wages increased \$76,510 or 17% to \$517,400 during the three months ended September 30, 2013 compared to \$440,890 during the three months ended September 30, 2012. The increase in salaries and wages was primarily due to hiring new employees as follows:

Medex added three MPN program administrators, one in July 2012 and two in September 2012, hired one provider relations administrator in September 2012 and added a senior account executive in July 2013. MMC hired a director of workers' compensation and managed care in August of 2013. PHCO added an accounting manager in August 2012, an accounting clerk in September 2012, a receptionist in October 2012 and an accounting clerk in May 2013. MMM hired one nurse case manager in July 2012 and one in August 2012. MMC hired a bill review analyst and a UR program coordinator in September 2012 and a bill review specialist in October 2012.

Also contributing to the increase in salaries and wages during three months ended September 30, 2013 were the salary increases given to the CEO and CFO of PHCO, and the COO of Medex in December 2012.

Professional Fees

For the three months ended September 30, 2013 we incurred professional fees of \$131,157 compared to \$77,558 during the three months ended September 30, 2012. This 69% increase in fees was primarily the result of increased professional fees paid for field case management services partially offset by lower accounting, legal and medical consultant fees.

Insurance

During the three months ended September 30, 2013 we incurred insurance expenses of \$68,858, a \$14,004 increase over the prior year three-month period. The increase in 2013 was primarily due to premium increases for our employee group health medical coverage resulting from the increase in our total number of employees. We do not expect a material increase in insurance expenses during the remainder of this fiscal year.

Outsource Service Fees

Outsource service fees consist of costs incurred in outsourcing MBR services and certain NCM and UR services. We do not, at this time, have enough volume to justify creating our own MBR and UR in-house staff. Instead, we utilize outside vendors to provide specific services for our clients, charging additional fees over and above those paid to our outside vendors for administration and coordination of MBR, NCM and UR services directly to the clients. We incurred \$202,960 and \$114,550 in outsource service fees during the three-month periods ended September 30, 2013 and 2012, respectively. This \$88,410 increase was primarily the result of the increased demand for our MBR and UR services.

Data Maintenance

During the three-month period ended September 30, 2013 we experienced a 70% decrease in data maintenance fees. The decrease in data maintenance fees was primarily attributable to the lower levels of renewals from existing customers during the quarter ended September 30, 2013 when compared to the same period a year earlier. This decrease was partially offset by costs incurred resulting from the increases in our HCO and MPN enrollment.

General and Administrative

General and administrative expenses decreased 24% to \$108,759 during the three-month period ended September 30, 2013. This decrease of \$34,526 was primarily attributable to decreases in advertising, IT expense, office supplies, postage and delivery, partially offset by increases in rent and miscellaneous general administrative expenses. During the three months ended September 30, 2013 bad debt of \$2,500 recorded as general administrative expenses during the three-month period ended June 30, 2013 was reclassified as a separate expense item on the condensed consolidated statements of operations. We expect current levels of general and administrative expenses to increase starting with the first quarter of 2014.

Income Before Taxes

In the third fiscal quarters of 2013 and 2012 total revenues exceeded total expenses. As a result, we recognized income before taxes during the three months ended September 30, 2013 and 2012 of \$561,744 and \$314,147, respectively.

Income Tax Provision

As a result of realizing income before taxes, we made provision for our income tax obligations in the third fiscal quarters of 2013 and 2012. Our income tax provision for the three-months ended September 30, 2013 was 79% greater than during the comparable period 2012 to reflect the 79% increase in income before taxes realized during the third fiscal quarter 2013 compared to the third fiscal quarter 2012.

Net Income

During the three months ended September 30, 2013 total revenues of \$1,703,570 were higher by \$376,769 when compared to the same period in 2012. This increase in total revenues was partially offset by increases in total expenses of \$128,377 resulting in income from operations of \$562,292 compared to income from operations of \$313,900 during three months ended September 30, 2012. As a result, we realized a 79% increase in net income for the three months ended September 30, 2013, compared to the three months ended September 30, 2012. We expect moderate increases in revenues to continue in the fourth quarter of 2013, when compared to the fourth quarter of 2012, to be generated from new services offered by the Company to existing and new customers.

Comparison of the nine months ended September 30, 2013 and 2012

Revenue

The total number of employee enrollees increased 24% during nine months ended September 30, 2013 compared to September 30, 2012. Total revenues also increased 33% to \$4,680,288.

The net increase in HCO and MPN enrollees of approximately 2,945 and 102,872, respectively, was mainly the result of existing major HCO and MPN customers increasing their enrollments. Although we realized growth in our revenues during the nine months ended September 30, 2013 when compared to the nine months ended September 30, 2012, there are no assurances that we will continue our growth rate during the remainder of 2013.

HCO Fees

During the nine months ended September 30, 2013 and 2012 HCO fee revenues were \$689,575 and \$691,574 respectively. While HCO enrollment increased 4% during the nine months ended September 30, 2013, we realized a decrease in revenues of less than 1% in revenues from HCO fees when compared to the same period last year. As noted above, the percentage increase in enrollment outpaced the percentage increase in revenue as a result of changes in our fee structure and our offering bundled services, including MBR, UR and NCM services to a number of clients, which resulted in increased enrollment, without increasing HCO fees charged.

MPN Fees

MPN fee revenue for the nine months ended September 30, 2013 was \$638,841 compared to \$569,584 for the nine months ended September 30, 2012. We had an increase in MPN enrollment of 28% during the nine months ended September 30, 2013 as noted above, which only resulted a 12% increase in MPN revenues compared to the same period 2012. Factors such as differing fee terms, unbundling of services, price competition and other similar factors contributed to this lower rate of increase in MPN revenues.

Other Fees

As mentioned above, other fees consist of revenues derived from MBR, NCM, UR, lien representation services and network claims repricing services provided by Medex, MMC, MMM and MLS. Other fee revenues for the nine months ended September 30, 2013 and 2012 were \$3,351,872 and \$2,255,011, respectively.

MBR and UR Fees

During the nine months ended September 30, 2013, MBR and UR revenues increased by \$198,370 and \$717,739, respectively, when compared to the same period of fiscal 2012. MBR and UR service revenues grew largely as a result of increased marketing efforts by MMC in these areas of our business.

NCM Fees

During the nine months ended September 30, 2013 and 2012 NCM revenue was \$815,987 and \$517,777, respectively. This increase of \$298,210 was primarily the result of increased customer employee enrollment.

Lien Service Fees

We commenced offering lien representation services in February 2012 and recorded revenues totaling \$7,895 for the nine-month period ended September 30, 2013. During the nine-month period ended September 30, 2012, we realized lien service fees of \$46,720. The lower level of lien services fees realized during the nine months ended September 30, 2013 was the result of MLS terminating the offering of its services in January 2013 as a result of changes in legislation that appear to have significantly impaired the potential profitability of the lien representation business.

Network Repricing Fees

Our network claims repricing fees are generated from certain customers who have access to our network and split with Medex their cost savings generated from their PPO. Network claims repricing fees decreased from \$198,849 during the nine months ended September 30, 2012 to \$120,217 during the nine months ended September 30, 2013 as three customers reported lower levels of network claims repricing fees. This resulted in a decrease in fees of \$78,632 when compared to the nine months ended September 30, 2012.

Expenses

Total expenses for the nine months ended September 30, 2013 and 2012 were \$3,287,951 and \$2,626,596, respectively. The increase of \$661,355 was the result of increases in depreciation, bad debt, outsource service fees, salaries and wages, professional fees, insurance and general and administrative expense, partially offset by decreases in consulting fees and data maintenance.

Bad Debt

During the nine months ended September 30, 2013 we recorded a bad debt provision totaling \$10,000 to cover potential uncollectible receivables from several customers who were unable to reconcile their outstanding past due receivables with us. During the nine months ended September 30, 2012 there was no bad debt expense recorded.

Consulting Fees

During the nine months ended September 30, 2013 consulting fees decreased to \$267,125 from \$354,019 during the nine months ended September 30, 2012. The decrease of \$86,894 was due mainly from the termination of our lien consultant as of January 31, 2013 and the consultant in charge of our MMC operations in July 2012.

Salaries and Wages

Salaries and wages increased \$311,109 or 25% to \$1,547,197 during the nine months ended September 30, 2013 compared with the nine months ended September 30, 2012. The increase in salaries and wages was primarily due to hiring new employees as follows:

Medex added three MPN program administrators, one in July 2012 and two in September 2012, hired one provider relations administrator in September 2012 and added a senior account executive in July 2013. MMC hired a director of workers' compensation and managed care in August of 2013. PHCO added an accounting manager in August 2012, an accounting clerk in September 2012, a receptionist in October 2012 and an accounting clerk in May 2013. MMM hired one nurse case manager in July 2012 and one in August 2012. MMC hired a bill review analyst and a UR program coordinator in September 2012 and a bill review specialist in October 2012.

Also contributing to the increase in salaries and wages during the nine months ended September 30, 2013 were salary increases given to the CEO and CFO of PHCO and the COO of Medex in December 2012.

Professional Fees

For the nine months ended September 30, 2013 we incurred professional fees of \$324,014 compared to \$195,833 during the nine months ended September 30, 2012. This 65% increase in fees was primarily the result of increased fees paid for field case management services partially offset by lower accounting, legal and medical consultant fees.

Insurance

During the nine months ended September 30, 2013 we incurred insurance expenses of \$189,455, an increase of \$36,694 over the same nine-month period of 2012. The increase in 2013 was primarily due to premium increases for our employee group health medical, coverage resulting from the increase in our total number of employees. We do not expect a material increase in insurance expenses during the remainder of this fiscal year.

Outsource Service Fees

As discussed above, outsource service fees consist of costs incurred by our subsidiaries in outsourcing its MBR services and certain NCM and UR services. We incurred \$511,374 and \$259,972 in outsource service fees during the nine-month periods ended September 30, 2013 and 2012, respectively. This \$251,402 increase was primarily the result of the increased demand for our MBR and UR services.

Data Maintenance

During the nine months ended September 30, 2013 we experienced a 4% increase in HCO enrollment and a 28% increase in MPN enrollment, resulting in an overall enrollment increase of 24%. While overall enrollment increased by 24%, data maintenance fees decreased by 11% to \$46,178 during the nine months ended September 30, 2013. The decrease of \$5,791 in data maintenance fees was primarily attributable to the lower levels of renewals from existing customers during the nine months ended September 30, 2013 when compared to the same period a year earlier. This decrease was partially offset by costs incurred resulting from the increases in our HCO and MPN enrollment.

General and Administrative

General and administrative expenses increased 1% to \$359,985 during the nine months ended September 30, 2013 when compared to the same period in 2012. The increase in general and administrative expense was primarily attributable to increases in dues and subscription, employment agency fees, equipment and repairs, telephone expense and rent, partially offset by decreases in advertising, IT expense, license and permits, office supplies, postage and delivery and travel and entertainment. During the nine-month period ended September 30, 2013 bad debt of \$2,500 recorded as general administrative expenses during the nine-month period ended June 30, 2013 was reclassified as a separate expense item on the condensed consolidated statements of operations. Provided we continue to add new customers at our current rate, we expect current levels of general and administrative expenses to increase during the remainder of this fiscal year.

Income Before Taxes

During the nine months ended September 30, 2013 and 2012 total revenues exceeded total expenses. As a result, we recognized income before taxes during the nine months ended September 30, 2013 and 2012 of \$1,390,888 and \$891,270, respectively.

Income Tax Provision

As a result of realizing income before taxes, we made provision for our income tax obligations for the nine months ended September 30, 2013 and 2012. Our income tax provision for the nine months ended September 30, 2013 was 56% greater than during the comparable period 2012 to reflect the 56% increase in income before taxes realized during the nine months ended September 30, 2013 compared to the same period in 2012.

Net Income

During the nine months ended September 30, 2013 total revenues of \$4,680,288 were higher by \$1,164,119 when compared to the same period in 2012. This increase in total revenues was partially offset by increases in total expenses of \$661,355 resulting in income from operations of \$1,392,337 compared to income from operations of \$889,573 during nine months ended September 30, 2012. As a result, we realized net income of \$825,470 for the nine months ended September 30, 2013 compared to net income of \$529,326, during the nine months ended September 30, 2012. We expect moderate increases in revenues to continue in the fourth quarter of 2013, when compared to the fourth quarter of 2012, to be generated from new services offered by the Company to existing and new customers.

Liquidity and Capital Resources

As of September 30, 2013 we had cash on hand of \$933,109 compared to \$479,674 at December 31, 2012. The \$453,435 increase in cash on hand is primarily the result of increases in our net income, depreciation, accrued expenses, and accounts payable, and decrease in receivable other, partially offset by increases our accounts receivables, prepaid expenses, and decreases in our deferred rent expense, unearned revenues, purchase of furniture and equipment and payments of our obligations under capital lease. The payment period on our accounts receivables for our MBR and UR services is longer than for our other services, as these clients generally are slower payers. We are currently seeking loan arrangements to supplement our working capital needs to address the extended collection times on these accounts receivables, as well as, the need for additional funds that may be required to expand our business. Notwithstanding this issue, barring a significant economic downturn, we believe that cash on hand and anticipated revenues from operations will be sufficient to cover our operating costs for the balance of the current fiscal year.

We currently have planned certain capital expenditures during the remainder of fiscal 2013 to accommodate our growth. We do not anticipate this will require us to seek outside sources of funding. We do, however, from time to time, investigate potential opportunities to expand our business either through the creation of new business lines or the acquisition of existing businesses. We have not identified any suitable opportunity at the current time. An expansion or acquisition of this sort may require greater capital resources than we possess. Should we need additional capital resources, we most likely would seek to obtain such through debt and/or equity financing. We do not currently possess an institutional source of financing. Given current credit market conditions, there is no assurance that we could be successful in obtaining debt financing on favorable terms, or at all. Similarly, given current market and economic conditions there is no guarantee that we could negotiate appropriate equity financing.

Cash Flow

During the nine months ended September 30, 2013 cash was primarily used to fund operations. We had a net increase in cash of \$453,435 during the nine months ended September 30, 2013. See below for additional discussion and analysis of cash flow.

| | For the nine months ended | |
|---|----------------------------------|------------------|
| | September 30, | |
| | 2013 | 2012 |
| | (unaudited) | (unaudited) |
| Net cash provided by operating activities | \$ 470,823 | \$ 107,746 |
| Net cash used in investing activities | (3,050) | (63,551) |
| Net cash used in financing activities | (14,338) | (4,900) |
| Net increase in Cash | <u>\$ 453,435</u> | <u>\$ 39,295</u> |

During the nine months ended September 30, 2013 net cash provided by operating activities was \$470,823 compared to net cash provided by operating activities of \$107,746 during the nine months ended September 30, 2012. As discussed herein we realized net income of \$825,470 during the nine months ended September 30, 2013 compared to net income of \$529,326 during the nine months ended September 30, 2012.

Summary of Material Contractual Commitments

The following is a summary of our material contractual commitments as of September 30, 2013:

| Contractual obligations | Payments Due By Period | | | | |
|-------------------------|------------------------|---------------------|-------------------|-------------|----------------------|
| | Total | Less than 1 year | 1-3 years | 3-5 years | More than 5 years |
| Equipment Leases(1) | \$ 38,867 | \$ 24,409 | \$ 14,458 | \$ 0 | \$ - |
| Office Leases(2) | 352,463 | 143,463 | 209,000 | - | - |
| Total | \$ 391,330 | \$ 167,872 | \$ 223,458 | \$ - | \$ - |

- (1) In January 2010 we entered into a capital lease arrangement whereby we leased an office copy machine for \$25,543. The asset was recorded on our balance sheet under office equipment under capital lease and our liability incurred under the lease was recorded as current and noncurrent obligations under capital lease. The lease arrangement is for a term of 48 months at level operating rents with capital interest rate at 7%. In August 2012 we entered into a capital lease arrangement whereby we leased office server equipment for \$38,380. The asset was recorded on our balance sheet under office equipment under capital lease and our liability incurred under the lease was recorded as current and noncurrent obligations under capital lease. The lease arrangement is for a term of 36 months at level operating rents with capital interest rate at 7.5%.
- (2) In March 2011 we commenced a new office lease agreement that runs to February 29, 2016. In October 2011 we amended our office lease agreement to include an additional 1,640 square feet for our subsidiary MMC. Following is our annual amended base rent for the new office space throughout the term of the lease:

| Rent Period | Annual Rent Paym |
|-------------------------|-------------------|
| Oct. 1 to Dec. 31, 2013 | \$ 35,256 |
| Jan. 1 to Dec. 31, 2014 | \$ 144,508 |
| Jan. 1 to Dec. 31, 2015 | \$ 147,949 |
| Jan. 1 to Dec. 31, 2016 | \$ 24,750 |
| Total | \$ 352,463 |

Off-Balance Sheet Financing Arrangements

As of September 30, 2013 we had no off-balance sheet financing arrangements.

Critical Accounting Policies and Estimates

The preparation of financial statements in accordance with accounting standards generally accepted in the United States requires management to make estimates and assumptions that affect both the recorded values of assets and liabilities at the date of the financial statements and the revenues recognized and expenses incurred during the reporting period. Our estimates and assumptions affect our recognition of deferred expenses, bad debts, income taxes, the carrying value of its long-lived assets and its provision for certain contingencies. We evaluate the reasonableness of these estimates and assumptions continually based on a combination of historical information and other information that comes to its attention that may vary its outlook for the future. Actual results may differ from these estimates under different assumptions.

We believe the critical accounting policies that most impact our consolidated financial statements are described below.

Basis of Accounting — We use the accrual method of accounting.

Revenue Recognition — The Company applies the revenue recognition provisions pursuant to Accounting Standards Codification (“ASC”) 605.10, *Revenue Recognition* (“ASC 605”) (formerly SAB Topic 13A), which provides guidance on the recognition, presentation and disclosure of revenue in financial statements filed with the SEC. The guidance outlines the basic criteria that must be met to recognize the revenue and provides guidance for disclosure related to revenue recognition policies.

In general, the Company recognizes revenue related to licensing fees on a monthly basis, over the life of the licensing agreement, and when (i) persuasive evidence of an arrangement exists, (ii) delivery has occurred or services have been rendered, (iii) the fee is fixed or determinable and (iv) collectability is reasonably assured.

Health care service revenues are recognized in the period in which fees are fixed or determinable and the related services are provided to the subscriber.

The Company’s subscribers generally pay in advance for their services by check for billings, revenue is then recognized ratably over the period in which the related services are provided. Advance payments from subscribers and billings made in advance are recorded on the balance sheet as deferred revenue. An allowance for uncollectible accounts is established for any customer who is deemed as possibly uncollectible.

Health care service revenues are recognized in the period in which fees are fixed or determinable and the related services are provided to the subscriber.

Our subscribers generally pay in advance for their services by check payment, and revenue is then recognized ratably over the period in which the related services are provided. Advance payments from subscribers are recorded on the balance sheet as deferred revenue. In circumstance where payment is not received in advance, revenue is only recognized if collectability is reasonably assured. An allowance for uncollectible accounts is established for any customer who is deemed as possibly uncollectible.

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

Item 3. Quantitative and Qualitative Disclosures about Market Risk

As a smaller reporting company as defined in Rule 12b-2 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), and in Item 10(f)(1) of Regulation S-K, we are electing scaled disclosure reporting obligations and therefore are not required to provide the information requested by this Item.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) or 15d-15(e) under the Exchange Act), as of the end of the period covered by this quarterly report on Form 10-Q. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that as of the end of the period covered by this quarterly report on Form 10-Q, our disclosure controls and procedures were effective in (1) recording, processing, summarizing and reporting, information required to be disclosed by us in the reports that we file or submit under the Exchange Act within the time periods specified in the SEC’s rules and forms and (2) ensuring that information disclosed by us in such reports is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the quarter ended September 30, 2013 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1A. Risk Factors

As a smaller reporting company as defined in Rule 12b-2 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), and in Item 10(f)(1) of Regulation S-K, we are electing scaled disclosure reporting obligations and therefore are not required to provide the information requested by this Item.

Item 6. Exhibits

Exhibits. The following exhibits are included as part of this Quarterly Report:

| <u>Exhibit Number</u> | <u>Title of Document</u> |
|-----------------------|--|
| Exhibit 31.1 | Certification of Principal Executive Officer Pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934 |
| Exhibit 31.2 | Certification of Principal Financial Officer Pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934 |
| 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 32.2 | Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| Exhibit 101.INS | XBRL Instance Document |
| Exhibit 101.SCH | XBRL Taxonomy Extension Schema Document |
| Exhibit 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document |
| Exhibit 101.DEF | XBRL Taxonomy Definition Linkbase Document |
| Exhibit 101.LAB | XBRL Taxonomy Extension Label Linkbase Document |
| Exhibit 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document |

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, 2013 /s/ Tom Kubota
Tom Kubota
Chief Executive Officer

Date: November 14, 2013 /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 registrant as of, and for, the periods presented in this report;
- 4) The registrant's other certifying officer(s) 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(s) 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, 2013

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 registrant as of, and for, the periods presented in this report;

4) The registrant's other certifying officer(s) 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(s) 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, 2013

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

EXHIBIT 32.1

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
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, 2013, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Tom Kubota, Chief Executive Officer of Pacific Health Care Organization, Inc., certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my 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, 2013

/s/ Tom Kubota
Tom Kubota
Chief Executive Officer

EXHIBIT 32.2

**CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER
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, 2013, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Fred Odaka, Chief Financial Officer of Pacific Health Care Organization, Inc., certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my 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, 2013

/s/ Fred Odaka
Fred Odaka
Chief Financial Officer