UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Quarterly Period Ended June 30, 2017

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

Commission File Number **000-50009**

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

Utah	**87-0285238**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer I.D. No.)
1201 Dove Street, Suite 300 **Newport Beach, California**	**92660**
(Address of principal executive offices)	(Zip Code)

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

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

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

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

Large accelerated filer ☐	Accelerated filer ☐
Non-accelerated filer (Do not check if a smaller reporting company) ☐	Smaller reporting company ☒
Emerging growth company ☒	

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

As of August 11, 2017, the registrant had 800,000 shares of common stock, par value $0.001, issued and outstanding.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Information

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

ASSETS

	June 30, 2017	December 31, 2016
Current Assets		
Cash	$ 5,431,874	$ 5,005,617
Accounts receivable, net of allowance of $56,400 and $64,150	1,069,646	849,648
Deferred tax asset	11,661	11,661
Prepaid expenses	103,489	136,862
Total current assets	6,616,670	6,003,788
Property and Equipment, net		
Computer equipment	362,647	349,955
Furniture and fixtures	212,823	206,785
Office equipment	9,557	15,595
Total property and equipment	585,027	572,335
Less: accumulated depreciation	(385,692)	(346,295)
Net property and equipment	199,335	226,040
Other Assets	26,788	26,788
Total assets	$ 6,842,793	$ 6,256,616
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts payable	$ 62,340	$ 101,294
Accrued expenses	226,588	253,367
Deferred rent expense	19,756	17,485
Income tax payable	218,984	31,226
Dividend payable	56,923	56,923
Unearned revenue	37,892	38,748
Total current liabilities	622,483	499,043
Total liabilities	622,483	499,043
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 1,000 shares issued and outstanding at June 30, 2017 and December 31, 2016	1	1
Common stock, $0.001 par value: 50,000,000 shares authorized; 800,000 shares issued and outstanding at June 30, 2017 and December 31, 2016	800	800
Additional paid-in capital	428,072	428,072
Retained earnings	5,791,437	5,328,700
Total stockholders' equity	6,220,310	5,757,573
Total liabilities and stockholders' equity	$ 6,842,793	$ 6,256,616

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

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

	For three months ended June 30, 2017	For three months ended June 30, 2016	For six months ended June 30, 2017	For six months ended June 30, 2016
Revenues				
HCO fees	$ 360,836	$ 293,736	$ 663,405	$ 688,817
MPN fees	146,690	148,699	284,971	290,057
UR fees	273,298	208,063	510,343	375,029
MBR fees	177,480	125,092	334,258	330,064
NCM fees	654,341	388,593	1,241,577	677,329
Other	62,992	85,526	182,339	197,574
Total revenues	1,675,637	1,249,709	3,216,893	2,558,870
Expenses				
Depreciation and amortization	19,570	20,559	39,397	42,322
Bad debt provision	18,000	4,500	14,750	9,000
Consulting fees	78,734	88,536	155,994	190,068
Salaries and wages	597,701	567,937	1,186,358	1,143,048
Professional fees	117,147	71,771	199,231	142,263
Insurance	90,731	83,551	178,006	161,855
Outsource service fees	145,503	88,980	258,251	175,208
Data maintenance	24,482	26,519	59,101	83,015
General and administrative	171,922	167,228	333,310	317,336
Total expenses	1,263,790	1,119,581	2,424,398	2,264,115
Income from operations	411,847	130,128	792,495	294,755
Income before taxes	411,847	130,128	792,495	294,755
Income tax provision	171,367	54,146	329,758	122,647
Net income	$ 240,480	$ 75,982	$ 462,737	$ 172,108
Basic and fully diluted earnings per share:				
Earnings per share amount	$ .30	$ .09	$ .58	$ .22
Weighted average common shares outstanding	800,000	800,000	800,000	800,000

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

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

	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016
Cash flows from operating activities:		
Net income	$ 462,737	$ 172,108
Adjustments to reconcile net income to net cash from operations:		
Depreciation and amortization	39,397	42,322
Changes in operating assets and liabilities:		
(Decrease) increase in bad debt provision	(7,750)	2,510
(Increase) decrease in accounts receivable	(212,248)	303,912
Decrease (increase) in prepaid expenses	33,373	(16,800)
Decrease in prepaid income tax	-	122,647
(Decrease) in accounts payable	(38,954)	(21,006)
Increase in deferred rent expense	2,271	7,685
(Decrease) increase in accrued expenses	(26,779)	12,835
Increase in income tax payable	187,758	-
(Decrease) in unearned revenue	(856)	(4,615)
Decrease in deferred compensation	-	24,749
Net cash provided from operating activities	438,949	646,347
Cash flows from investing activities:		
Purchase of furniture and office equipment	(12,692)	(12,312)
Net cash used in investing activities	(12,692)	(12,312)
Cash flows from financing activities:		
Issuance of cash dividend	-	(1,750)
Net cash used in financing activities	-	(1,750)
Increase in cash	426,257	632,285
Cash at beginning of period	5,005,617	3,834,924
Cash at end of period	$ 5,431,874	$ 4,467,209
Supplemental cash flow information		
Cash paid for:		
Interest	$ -	$ -
Income taxes paid	$ 142,000	$ -

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

Pacific Health Care Organization, Inc.
Notes to Condensed Consolidated Financial Statements
For the Six Months Ended June 30, 2017
(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, 2016. Operating results for the six months ended June 30, 2017, are not necessarily indicative of the results to be expected for the year ending December 31, 2017.

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

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

Revenue Recognition — In general, the Company recognizes revenue when (i) persuasive evidence of an arrangement exists, (ii) delivery has occurred or services have been rendered, (iii) the fee is fixed or determinable and (iv) collectability is reasonably assured. Revenues are generated as services are provided to the customer based on the sales price agreed and collected. The Company recognizes revenue as the time is worked or as units of production are completed, which is when the revenue is earned and realized. Labor costs are recognized as the costs are incurred. The Company derives its revenue from the sale of Managed Care Services, Review Services and 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. Such revenue is recognized at the end of each month for which services are performed.

Management reviews each agreement in accordance with the provisions of revenue recognition topic ASC 605. Arrangements entered into in such agreements consist of bundled managed care which includes various units of accounting such as network solutions and patient management, including managed care. Such elements are considered separate units of accounting due to each element having value to the customer on a stand-alone basis and are billed separately. The selling price for each unit of accounting is determined using the contract price. When the Company's customers purchase several products the pricing of the products sold is generally the same as if the products were sold on an individual basis. Revenue is recognized as the work is performed in accordance with the Company's customer contracts. Based upon the nature of the Company's products, bundled managed care elements are generally delivered in the same accounting period. The Company recognizes revenue for patient management services ratably over the life of the customer contract. Based upon prior experience in managed care, the Company estimates the deferral amount from when the customer's claim is received to when the customer contract expires. Advance payments from subscribers and billings made in advance are recorded on the balance sheet as deferred revenue.

Accounts Receivables and Bad Debt Allowance – In the normal course of business the Company extends credit to its customers on a short-term basis. Although the credit risk associated with these customers is minimal, the Company routinely reviews its accounts receivable balances and makes provisions for doubtful accounts. The Company ages its receivables by date of invoice. Management reviews bad debt reserves quarterly and reserves specific accounts as warranted or sets up a general reserve based on amounts over 90 days past due. When an account is deemed uncollectible, the Company charges off the receivable against the bad debt reserve. A considerable amount of judgment is required in assessing the realization of these receivables including the current creditworthiness of each customer and related aging of the past-due balances, including any billing disputes. In order to assess the collectability of these receivables, the Company performs ongoing credit evaluations of its customers' financial condition. Through these evaluations, the Company may become aware of a situation where a customer may not be able to meet its financial obligations due to deterioration of its financial viability, credit rating or bankruptcy. The allowance for doubtful accounts is based on the best information available to the Company and is reevaluated and adjusted as additional information is received. We evaluate the allowance based on historical write-off experience, the size of the individual customer balances, past-due amounts and the overall national economy. At June 30, 2017 and December 31, 2016, bad debt reserves of $56,400 and $64,150, respectively, was a general reserve for certain balances over 90 days past due and for accounts that are potentially uncollectible.

The percentages of the amounts due from major customers to total accounts receivable as of June 30, 2017 and June 30, 2016, are as follows:

	6/30/2017	**6/30/2016**
Customer A	18%	0%
Customer B	14%	17%
Customer C	6%	11%

NOTE 2 - SUBSEQUENT EVENTS

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

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

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

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

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

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

Overview

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

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

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

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

Recent Developments

MPN Enrollment Count

Changes to the MPN regulations in August 2014 eliminated the notice requirements to employees covered under an MPN program. This change eliminated the need for our MPN clients to submit employee rosters for MPN notice mailings. As a result, over the past several years, many of our MPN client/employers have stopped sending us employee rosters which we have historically used to determine employee/enrollee headcount information. Enough of our MPN client/employers have stopped submitting to us such information that we can no longer accurately track the overall number of MPN participants. Therefore, beginning in the first quarter 2017, we ceased tracking the overall number of MPN participants of all client/employers in our MPN program.

HCO Enrollment Count

Historically, the HCO employee/enrollee headcount was directly related to the amount of revenue generated by HCO clients. We were, however, at risk of losing several clients under this pricing model. To remain competitive in the marketplace, we developed a new pricing model, which includes both a fixed monthly flat rate pricing option that is negotiated per client and/or a per claim incurred pricing model. Under the per claim model, our client/employers do not incur this cost as an out of pocket cost, but rather apply the cost directly to the insured or self-insured claim. As a result of moving from our fixed fee per number of employee/enrollees per customer model, beginning in the first quarter 2017 we have discontinued reporting the direct relationship between the number of HCO employee/enrollees and total HCO revenues because that historical relationship has become distorted as a result of the implementation of our new pricing model. This change in our pricing model had no significant impact to our current level of HCO revenues and we expect the same level of impact over the remaining months of 2017.

Results of Operations

Comparison of the three months ended June 30, 2017 and 2016

The following represents selected components of our consolidated results of operations, for the three-month periods ended June 30, 2017 and 2016, respectively, together with changes from period-to-period:

	For three months ended June 30,			
	2017	2016	Amount Change	% Change
Revenues:				
HCO fees	$ 360,836	$ 293,736	$ 67,100	23%
MPN fees	146,690	148,699	(2,009)	(1%)
NCM fees	654,341	388,593	265,748	68%
UR fees	273,298	208,063	65,235	31%
MBR fees	177,480	125,092	52,388	42%
Other	62,992	85,526	(22,534)	(26%)
Total revenues	1,675,637	1,249,709	425,928	34%
Expense:				
Depreciation and amortization	19,570	20,559	(989)	(5%)
Bad debt provision	18,000	4,500	13,500	300%
Consulting fees	78,734	88,536	(9,802)	(11%)
Salaries and wages	597,701	567,937	29,764	5%
Professional fees	117,147	71,771	45,376	63%
Insurance	90,731	83,551	7,180	9%
Outsource service fees	145,503	88,980	56,523	64%
Data maintenance	24,482	26,519	(2,037)	(8%)
General and administrative	171,922	167,228	4,694	3%
Total expenses	1,263,790	1,119,581	144,209	13%
Income from operations	411,847	130,128	281,719	216%
Income before taxes	411,847	130,128	281,719	216%
Income tax provision	171,367	54,146	117,221	216%
Net income	$ 240,480	$ 75,982	$ 164,498	216%

Revenue

Total revenues during the three-month period ended June 30, 2017, increased 34% to 1,675,637 compared to $1,249,709 during the three-month period ended June 30, 2016.

During the second quarter 2017, HCO, nurse case management, utilization review, and medical bill review increased 23%, 68%, 31% and 42% respectively, while MPN and other fees decreased by 1% and 26%, respectively. Other revenues consisted of revenues derived primarily from network claims repricing services, lien representation services, legal support services, workers' compensation carve out revenues and Medicare set aside revenues.

HCO fees

During the three-month periods ended June 30, 2017 and 2016, HCO fee revenues were $360,836 and $293,736, respectively. The 23% increase in HCO revenue was primarily attributable to revenues derived from one new client starting in the third quarter of 2016 coupled with increased fees primarily from three existing customers.

MPN fees

MPN fee revenue for the three-month periods ended June 30, 2017 and 2016, were $146,690 and $148,699, respectively, a decrease of 1%, resulting from lower revenues from one existing customer.

NCM fees

During the three months ended June 30, 2017 and 2016, nurse case management revenue was $654,341 and $388,593, respectively. The increase in nurse case management revenue of $265,748 was primarily from increased revenues from five existing customers when compared to the same period in 2016. We expect nurse case management revenue to continue to moderately increase during the remaining months of fiscal 2017.

UR fees

During the three-month periods ended June 30, 2017 and 2016, utilization review revenue was $273,298 and $208,063, respectively. The increase of $65,235 in the 2017 period was attributable to adding new clients in the fourth quarter of fiscal 2016 and increases in revenues from other existing customers. Utilization review can provide a safeguard against unnecessary and inappropriate medical treatment from the perspective of medical necessity, quality of care, appropriateness of decision-making, etc. Through our skilled staff and automated review system, we are able to deliver utilization review services that cut overhead costs for the self-insured clients, insurance companies and the public entities we service.

MBR fees

During the three-month period ended June 30, 2017, medical bill review revenue increased $52,388 to $177,480 when compared to the same period a year earlier. This increase was mainly caused by processing increased hospital bills from existing customers. Medical bill review involves analyzing medical provider services and equipment billing to ascertain proper reimbursement. Such services include, but are not limited to, coding review and rebundling, confirming that the services are customary and reasonable, fee schedule compliance, out-of-network bill review, pharmacy review, and preferred provider organization repricing arrangements. These services can result in significant network savings.

Other

Other fees consist of revenue derived from network access and claims repricing, lien representation, legal support services, Medicare set aside and worker's compensation carve-out services. Other fee revenue for three-month periods ended June 30, 2017 and 2016, were $62,992 and $85,526 respectively. The decrease of $22,534 was mainly the result of decreased network access fees from one customer having lower level of savings realized from using our PPO network. We expect this downward trend for this customer to continue for the remainder of 2017.

Expenses

Total expenses for the three months ended June 30, 2017 and 2016, were $1,263,790 and $1,119,581, respectively. The increase of $144,209 was the result of increases in salaries and wages, professional fees, insurance, outsource service fees, general and administrative expense and bad debt which were partially offset by decreases in depreciation and amortization, consulting fees and data maintenance expense.

Depreciation and Amortization

During the three-month period ended June 30, 2017, we recorded depreciation and amortization expense of $19,570 compared to $20,559 during the comparable 2016 period. The decrease in depreciation and amortization was primarily attributable to certain fixed assets being fully depreciated during the fourth quarter of 2016.

Bad Debt

During the three-month period ended June 30, 2017, bad debt provision increased by $13,500 compared to the three-month period ended June 30, 2016. This increase of $13,500 was primarily the result of recording additional bad debt provision for one existing uncollectable account.

Consulting Fees

During the three months ended June 30, 2017, consulting fees decreased to $78,734 from $88,536 during the three months ended June 30, 2016. This decrease was mainly the result of a 10% reduction in fees paid to two consultants commencing in June 2016 and converting a consultant to an employee in March 2016.

Salaries and Wages

During the three-month period ended June 30, 2017, salaries and wages increased 5% to $597,701 compared to $567,937 during the same period in 2016. This increase was primarily the result of additional staffing in nurse case management and higher levels of commissions partially offset by salary reductions of 10% by several senior executives in June 2016.

Professional Fees

For the three months ended June 30, 2017, we incurred professional fees of $117,147 compared to $71,771 during the three months ended June 30, 2016. The $45,376 increase in professional fees was primarily the result of higher legal expenses and professional fees paid for nurse case management services resulting from increased numbers of cases processed.

Insurance

During the three-month period ended June 30, 2017, we incurred insurance expenses of $90,731, a 9% increase over the same three-month period in 2016. This increase in insurance expense was primarily attributable to higher workers' compensation premiums for our employees and directors' and officers' insurance premiums. We do not expect current insurance fees to increase significantly over the remaining months of 2017.

Outsource Service Fees

Outsource service fees consist of costs incurred by our subsidiaries in outsourcing utilization review, medical bill review, medicare set aside services and field case management fees and typically tends to increase and decrease in correspondence with increases and decreases in demand for those services. We incurred $145,503 and $88,980 in outsource service fees during the three-month periods ended June 2017 and 2016, respectively. The increase of $56,523 was primarily the result of increases in outsource services required for utilization review, medicare set aside services and nurse case management. We anticipate our outsource service fees will continue to move in correspondence with the level of utilization review, medical bill review and certain nurse case management services we provide in the future.

Data Maintenance

During the three-month periods ended June 30, 2017 and 2016, data maintenance fees were $24,482 and $26,519 respectively. The decrease of $2,037 was primarily the result of recording notification fees associated with the addition of a major HCO customer in the first quarter 2016, with a lower level of notification fees recorded for this same customer during the three-month period ended June 30, 2017.

General and Administrative

During the three-month period ended June 30, 2017, general and administrative expenses increased 3% to $171,922 when compared to the three-month period ended June 30, 2016. This increase of $4,694 was primarily attributable to increases in IT enhancement, licenses & permits, travel expense, and miscellaneous expense, partially offset by decreases in office supplies, charitable contributions, postage expense, auto expense, dues and subscriptions, and paid time off expenses. We do not expect current levels of general and administrative expenses to materially increase during the remaining months of 2017.

Income from Operations

As a result of the 34% increase in total revenue during the three-month period ended June 30, 2017, which was partially offset by the 13% increase in total expenses during the same period, our income from operations increased by 216% during the three-month period ended June 30, 2017, when compared to the same period in 2016.

Income Tax Provision

Because we realized income before taxes of $411,847 and $130,128 during the three-month periods ended June 30, 2017 and 2016, respectively, we realized a $117,221, or 216%, increase in our income tax provision.

Net Income

During the three-month period ended June 30, 2017, total revenues of $1,675,637 was 34% higher when compared to the same period in 2016. This increase in total revenues was partially offset by a 13% increase in total expenses, resulting in a 216% increase in income from operations compared to the three months ended June 30, 2016. Correspondingly, we realized net income of $240,480 for the three-month period ended June 30, 2017, also a 216% increase compared to the three-month period ended June 30, 2016.

Comparison of six months ended June 30, 2017 and 2016

The following represents selected components of our consolidated results of operations, for the six-month periods ended June 30, 2017 and 2016, respectively, together with changes from period-to-period:

	For six months ended June 30,			
	2017	**2016**	**Amount Change**	**% Change**
Revenues:				
HCO fees	$ 663,405	$ 688,817	$ (25,412)	(4%)
MPN fees	284,971	290,057	(5,086)	(2%)
NCM fees	1,241,577	677,329	564,248	83%
UR fees	510,343	375,029	135,314	36%
MBR fees	334,258	330,064	4,194	1%
Other	182,339	197,574	(15,235)	(8%)
Total revenues	3,216,893	2,558,870	658,023	26%
Expense:				
Depreciation and amortization	39,397	42,322	(2,925)	(7%)
Bad debt provision	14,750	9,000	5,750	64%
Consulting fees	155,994	190,068	(34,074)	(18%)
Salaries and wages	1,186,358	1,143,048	43,310	4%
Professional fees	199,231	142,263	56,968	40%
Insurance	178,006	161,855	16,151	10%
Outsource service fees	258,251	175,208	83,043	47%
Data maintenance	59,101	83,015	(23,914)	(29%)
General and administrative	333,310	317,336	15,974	5%
Total expenses	2,424,398	2,264,115	160,283	7%
Income from operations	792,495	294,755	497,740	169%
Income before taxes	792,495	294,755	497,740	169%
Income tax provision	329,758	122,647	207,111	169%
Net income	$ 462,737	$ 172,108	$ 290,629	169%

Revenue

Total revenues during the six-month period ended June 30, 2017, increased 26% to 3,216,893 compared to $2,558,870 during the six-month period ended June 30, 2016.

During the first six-months of 2017, nurse case management, utilization review, and medical bill review increased 83%, 36% and 1% respectively, while HCO, MPN and other fees decreased by 4%, 2%, and 8%, respectively. Other revenues consisted of revenues derived primarily from network claims repricing services, lien representation services, legal support services, workers' compensation carve out revenues and Medicare set aside revenues.

HCO fees

During the six-month periods ended June 30, 2017 and 2016, HCO fee revenues were $663,405 and $688,817 respectively. The 4% decrease in HCO revenue was primarily attributable to lower revenues derived from initial notification and mailing fees from a new HCO customer in the six-month period ended June 30, 2017 of $25,734 compared to $84,453 in the same period in 2016, partially offset from revenues derived from a new customer starting in the first quarter of 2017 and slight increases from existing customers.

MPN fees

MPN fee revenue for the six-month periods ended June 30, 2017 and 2016, was $284,971 and $290,057 respectively, a decrease of 2%, resulting from lower revenues from one existing customer.

NCM fees

During the six months ended June 30, 2017 and 2016, nurse case management revenue was $1,241,577 and $677,329, respectively. The increase in nurse case management revenue of $564,248 was primarily the result of adding new customers during the third and fourth quarters of 2016, and increases in revenues from existing customers. We expect nurse case management revenue to increase at more moderate rates during the remainder of fiscal 2017.

UR fees

During the six-month periods ended June 30, 2017 and 2016, utilization review revenue was $510,343 and $375,029, respectively. The increase of $135,314 in the 2017 period was attributable to adding new clients in the third and fourth quarters of fiscal 2016. Utilization review can provide a safeguard against unnecessary and inappropriate medical treatment from the perspective of medical necessity, quality of care, appropriateness of decision-making, etc. Through our skilled staff and automated review system, we are able to deliver utilization review services that cut overhead costs for the self-insured clients, insurance companies and the public entities we service.

MBR fees

During the six-month period ended June 30, 2017, medical bill review revenue increased $4,194 to $334,258 when compared to the same period a year earlier. This 1% increase was mainly caused by processing increased hospital claims from existing customers. Medical bill review involves analyzing medical provider services and equipment billing to ascertain proper reimbursement. Such services include, but are not limited to, coding review and rebundling, confirming that the services are customary and reasonable, fee schedule compliance, out-of-network bill review, pharmacy review, and preferred provider organization repricing arrangements. These services can result in significant network savings.

Other

Other fees consist of revenue derived from network access and claims repricing, lien representation, legal support services, Medicare set aside and worker's compensation carve-outs services. Other fee revenue for six-month periods ended June 30, 2017 and 2016, was $182,339 and $197,574, respectively. The decrease of $15,235 was mainly the result of decreased network access fees from one customer having lower savings realized from using our PPO network. We expect this downward trend for this customer to continue for the remainder of 2017.

Expenses

Total expenses for the six months ended June 30, 2017 and 2016, were $2,424,398 and $2,264,115, respectively. The increase of $160,283 was the result of increases in salaries and wages, professional fees, insurance, outsource service fees, general and administrative expense and bad debt, partially offset by decreases in depreciation, consulting fees and data maintenance expense.

Depreciation and Amortization

During the six-month period ended June 30, 2017, we recorded depreciation and amortization expense of $39,397 compared to $42,322 during the comparable 2016 period. The decrease in depreciation and amortization was primarily attributable to certain fixed assets being fully depreciated during the fourth quarter of 2016.

Bad Debt

During the six-month period ended June 30, 2017, bad debt provision increased by $5,750 compared to the six-month period ended June 30, 2017. This increase of $5,750 was primarily the result of additional provisions required for one potential uncollectable account.

Consulting Fees

During the six months ended June 30, 2017, consulting fees decreased to $155,994 from $190,068, during the six months ended June 30, 2016. This decrease was mainly the result of a 10% reduction in fees paid to two consultants commencing in June 2016 and converting a consultant to an employee in March 2016.

Salaries and Wages

During the six-month period ended June 30, 2017, salaries and wages increased 4% to $1,186,358 compared to $1,143,048 during the same period in 2016. This increase was primarily the result of additional staffing in nurse case management and higher levels of commissions partially offset by salary reductions of 10% by several senior executives in June 2016.

Professional Fees

For the six months ended June 30, 2017, we incurred professional fees of $199,231, compared to $142,263 during the six months ended June 30, 2016. The $56,968 increase in professional fees was primarily the result of higher professional fees paid for nurse case management services resulting from increased numbers of cases processed.

Insurance

During the six-month period ended June 30, 2017, we incurred insurance expenses of $178,006, a 10% increase over the same six-month period in 2016. The increase in insurance expense was primarily attributed to higher workers' compensation premiums for our employees and directors' and officers' insurance premiums during the six months period ended June 30, 2017 compared to 2016. We do not expect current insurance fees to increase significantly over the remaining months of 2017.

Outsource Service Fees

Outsource service fees consist of costs incurred by our subsidiaries in outsourcing utilization review, medical bill review and nurse case management services, and typically tends to increase and decrease in correspondence with increases and decreases in demand for those services. We incurred $258,251 and $175,208 in outsource service fees during the six-month periods ended June 2017 and 2016, respectively. The increase of $83,043 was primarily the result of increases in outsource services required for utilization review and field case management fees. We anticipate our outsource service fees will continue to move in correspondence with the level of utilization review, medical bill review and certain nurse case management services we provide in the future.

Data Maintenance

During the six-month period ended June 30, 2017 and 2016, data maintenance fees were $59,101 and $83,015 respectively. The decrease of $23,914 was primarily the result of recording notification fees associated with the addition of a major HCO customer in the first quarter 2016, with a lower level of notification fees recorded for this same customer during the six-month period ended June 30, 2017.

General and Administrative

During the six-month period ended June 30, 2017, general and administrative expenses increased 5% to $333,310 when compared to the six-month period ended June 30, 2016. This increase of $15,974 was primarily attributable to increases in IT enhancement, licenses and permits, office rent, miscellaneous expense, and travel expense, partially offset by decreases in charitable contributions, auto expense, postage expense, office supplies and paid time off expense. We do not expect current levels of general and administrative expenses to materially increase during the remaining months of 2017.

Income from Operations

As a result of the 26% increase in total revenue during the six-month period ended June 30, 2017, which was partially offset by the 7% increase in total expenses, our income from operations increased to $792,495, a 169% increase compared to the same period in 2016.

Income Tax Provision

Because we realized income before taxes of $792,495 and $294,755 during the six-month periods ended June 30, 2017 and 2016, respectively, we realized a $207,111, or 169%, increase in our income tax provision.

Net Income

During the six-month period ended June 30, 2017, total revenues of $3,216,893 was 26% higher when compared to the same period in 2016. This increase in total revenues was partially offset by a 7% increase in total expenses, resulting in a 169% increase in income from operations. Correspondingly, we realized net income of $462,737 for the six-month period ended June 30, 2017, also a 169% increase compared to the six-month period ended June 30, 2016.

Liquidity and Capital Resources

As of June 30, 2017, we had cash on hand of $5,431,874 compared to $5,005,617 at December 31, 2016. The $426,257 increase was primarily the result of net cash provided by our operating activities, partially offset by cash used in investing activities. Net cash provided by our operating activities was the result of realizing net income with increases in accumulated depreciation, income tax payable and deferred rent expense and decreases in prepaid expenses, partially offset by decreases in our bad debt, accounts payable, accrued expenses, unearned revenues and increases in our accounts receivable. We used $12,692 in investing activities for purchases of computers, furniture and equipment. 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 fiscal 2017 to support potential new customers' software requirements. We do not expect these software expenditures to be material. 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 are taking steps to look at acquisition candidates to vertically grow our Company. In addition, we are also exploring potential acquisition candidates that are not in the workers' compensation and health care related industries. We have not found any suitable candidate at the current time. We could use cash or stock of our Company or some combination of both in any such expansion or acquisition. 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. Although we have met with potential investment banking firms, we do not currently possess an institutional source of financing. There is no assurance that we could be successful in obtaining equity or debt financing on favorable terms, or at all.

Ca**sh Flow**

During the six months ended June 30, 2017, cash was primarily used to fund operations. We had a net increase in cash of $426,257 during the six months ended June 30, 2017. See below for additional information.

	For the six months ended June 2017 (unaudited)	2016 (unaudited)
Net cash provided from operating activities	$ 438,949	$ 646,347
Net cash used in investing activities	(12,692)	(12,312)
Net cash used in financing activities	-	(1,750)
Net increase in cash	$ 426,257	$ 632,285

During the six months ended June 30, 2017 and 2016, net cash provided by operating activities was $438,949 and $646,347 respectively. As discussed herein, we realized net income of $462,737 during the six months ended June 30, 2017, compared to net income of $172,108 during the six months ended June 30, 2016. The decrease of $207,398 in cash flow from operating activities was primarily the result of increases in accounts receivable, income tax payable and deferred rent and decreases in bad debt, accounts payable, accrued expenses, unearned revenues and prepaid expense.

Net cash used in investing activities was $12,692 and $12,312 during the six-month periods ended June 30, 2017 and 2016, respectively. During the six-month period ended June 30, 2017 and 2016, net cash used in investing activities was used to purchase computers, furniture and equipment.

Net cash used in financing activities during the six-month period ended 2017 was lower by $1,750 when compared to the same period in 2016, as no cash dividends were paid in 2017.

Summary of Material Contractual Commitments

The following is a summary of our material contractual commitments as of June 30, 2017.

	Payments Due By Period				
	Total	**Less than 1 year**	**1-3 years**	**3-5 years**	**More than 5 years**
Operating Leases:					
Operating Leases – Equipment	$ 62,025	$ 20,675	$ 41,350	$ -	$ -
Office Leases	$ 1,239,718	253,343	443,633	542,742	-
Total Operating Leases	$ 1,301,743	$ 274,018	$ 484,983	$ 542,742	$ -

Item 3. Quantitative and Qualitative Disclosure about Market Risk

This information is not required for smaller reporting companies.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

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

Our management, under the supervision and with the participation of our principal executive officer and principal financial officer, conducted an evaluation the effectiveness of our disclosure controls and procedures as of the end of the period covered by this quarterly report on Form 10-Q. Based on the evaluation of our disclosure controls and procedures as of June 30, 2017, the end of the period covered by this report, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective at a reasonable assurance level.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the quarter ended June 30, 2017, 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, 2016. These risk factors should be carefully considered with the information provided elsewhere in this report, which could materially adversely affect our business, financial condition or results of operations.

Item 6. Exhibits

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

Exhibit Number	Title of Document
Exhibit 31.1	Certification of Principal Executive Officer pursuant to Rule 13a-14(a) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
Exhibit 31.2	Certification of Principal Financial Officer pursuant to Rule 13a-14(a) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
Exhibit 32.1	Certification pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
Exhibit 101	The following materials from Pacific Health Care Organization, Inc.'s Quarterly Report on Form 10-Q for the period ended June 30, 2017, formatted in XBRL (eXtensible Business Reporting Language): (i) the Unaudited Condensed Consolidated Balance Sheets, (ii) the Unaudited Condensed Consolidated Statements of Operations, (iii) the Unaudited Condensed Consolidated Statements of Cash Flows, and (iv) Notes to the Unaudited Condensed Consolidated Financial Statements.

SIGNATURES

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

PACIFIC HEALTH CARE ORGANIZATION, INC.

Date:	August 14, 2017	/s/ Tom Kubota Tom Kubota Chief Executive Officer
Date:	August 14, 2017	/s/ Fred Odaka Fred Odaka Chief Financial Officer

EXHIBIT 31.1
CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Tom Kubota, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: August 14, 2017

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

EXHIBIT 31.2

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

I, Fred Odaka, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: August 14, 2017

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

EXHIBIT 32.1

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

In connection with the quarterly report on Form 10-Q of Pacific Health Care Organization, Inc. (the "Company") for the period ended June 30, 2017 as filed with the Securities and Exchange Commission (the "Report"), the undersigned hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of their knowledge:

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

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

Date: August 14, 2017

/s/ Tom Kubota
Tom Kubota
Chief Executive Officer

Date: August 14, 2017

/s/ Fred Odaka
Fred Odaka
Chief Financial Officer

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement has been provided to Pacific Health Care Organization, Inc. and will be retained by Pacific Health Care Organization, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

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.