PACIFICHEALTH LABORATORIES INC
Form 10-Q
May 06, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2009

-OR-

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

For the transition period from ________ to ________

Commission File No. 333-36379

PACIFICHEALTH LABORATORIES, INC.
(Exact name of registrant as specified in its charter)

DELAWARE	22-3367588
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

100 Matawan Road, Suite 420	
Matawan, NJ	07747
(Address of principal executive offices)	(Zip Code)

Registrant’s telephone number, including area code: (732) 739-2900

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 during the preceding 12 months (or for such 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 x No o

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 the definitions of “large accelerated filer”, “accelerated filer”, and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer o Accelerated filer o

Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company x

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-25 of the Exchange Act) Yes o No x

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 14,642,468 shares of common stock, par value $0.0025, outstanding as of May 5, 2009.

PACIFICHEALTH LABORATORIES, INC.

TABLE OF CONTENTS

Cautionary Note Regarding Forward-Looking Statements

As used herein, unless we otherwise specify, the terms the “Company,” “we,” “us,” and “our” means PacificHealth Laboratories, Inc.

This Report contains forward-looking statements concerning our financial condition, results of operations and business, including, without limitation, statements pertaining to:

- The development, testing, and commercialization of new products and the expansion of markets for our current products;
- The receipt of royalty payments from our agreements with business partners;
- Implementing aspects of our business plan;
- Financing goals and plans;
- Our existing cash and whether and how long these funds will be sufficient to fund our operations; and
- Our raising of additional capital through future equity financings.

These and other forward-looking statements are primarily in the section entitled “Management’s Discussion and Analysis of Financial Condition and Results of Operations”. Generally, you can identify these statements because they include phrases such as “anticipates,” “believes,” “expects,” “future,” “intends,” “plans,” and similar terms. These statement only predictions. Although we do not make forward-looking statements unless we believe we have a reasonable basis for doing so, we cannot guarantee their accuracy, and actual results may differ materially from those we anticipated due to a number of uncertainties, many of which are unforeseen. You should not place undue reliance on these forward-looking statements, which apply only as of the date of this Report on Form 10-Q. Our actual results could differ materially from those anticipated in these forward-looking statements for many reasons, including those stated in this Report. We undertake no obligation to update publicly any forward-looking statements, whether as a result of new information, future events or otherwise. We cannot be sure when or if we will be permitted by regulatory agencies to undertake clinical trials or to commence any particular phase of clinical trials. Because of this, statements regarding the expected timing of clinical trials cannot be regarded as actual predictions of when we will obtain regulatory approval for any “phase” of clinical trials.

We believe it is important to communicate our expectations to our investors. There may be events in the future, however, that we are unable to predict accurately or over which we have no control. Cautionary language in this Report provides examples of risks, uncertainties and events that may cause our actual results to differ materially from the expectations we describe in our forward-looking statements.

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

PACIFICHEALTH LABORATORIES, INC.

BALANCE SHEETS

	March 31, 2009 (Unaudited)	December 31, 2008
ASSETS		
Current assets:		
Cash and cash equivalents	$ 535,606	$ 888,993
Other short-term investments	275,000	300,000
Accounts receivable, net	860,123	455,851
Inventories, net	1,313,850	1,308,316
Prepaid expenses	149,664	159,200
Total current assets	3,134,243	3,112,360
Property and equipment, net	202,171	236,721
Deposits	22,895	22,895
Total assets	$ 3,359,309	$ 3,371,976
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Notes payable	$ 30,031	$ 58,810
Accounts payable and accrued expenses	880,513	555,354
Deferred revenue	374,865	347,945
Total current liabilities	1,285,409	962,109
Stockholders' equity:		
Common stock, $.0025 par value; authorized 50,000,000 shares; issued and outstanding: 14,462,468 shares at March 31, 2009 and 14,194,613 shares at December 31, 2008	36,156	35,486
Additional paid-in capital	19,654,125	19,585,297
Accumulated deficit	(17,616,381)	(17,210,916)
	2,073,900	2,409,867
Total liabilities and stockholders' equity	$ 3,359,309	$ 3,371,976

See accompanying notes to financial statements.

PACIFICHEALTH LABORATORIES, INC.
STATEMENTS OF OPERATIONS
FOR THE THREE MONTHS ENDED MARCH 31, 2009 AND 2008
(Unaudited)

	Three Months Ended March 31, 2009	Three Months Ended March 31, 2008
Revenue:		
Net product sales	$ 1,695,618	$ 1,719,375
Cost of goods sold	953,997	932,795
Gross profit	741,621	786,580
Operating expenses:		
Sales and marketing	316,108	144,234
General and administrative	832,482	900,306
Research and development	—	31,911
	1,148,590	1,076,451
Loss before other income (expense) and provision for income taxes	(406,969)	(289,871)
Other income (expense):		
Interest income	2,291	17,464
Interest expense	(787)	(131)
Other income	—	1,133
	1,504	18,466
Loss before income taxes	(405,465)	(271,405)
Provision for income taxes	—	—
Net loss	$ (405,465)	$ (271,405)
Net loss per common share - basic and diluted	$ (0.03)	$ (0.02)
Weighted average shares outstanding - basic and diluted	14,459,492	13,501,426

See accompanying notes to financial statements.

PACIFICHEALTH LABORATORIES, INC.
STATEMENTS OF CASH FLOWS
FOR THE THREE MONTHS ENDED MARCH 31, 2009 AND 2008
(Unaudited)

	2009	2008
Cash flows from operating activities:		
Net loss	$ (405,465)	$ (271,405)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	46,755	34,096
Allowance for doubtful accounts	3,000	3,000
Equity instrument based expense	69,498	109,262
Changes in assets and liabilities:		
Accounts receivable	(407,272)	(396,667)
Inventories	(5,534)	234,717
Prepaid expenses	9,536	35,680
Accounts payable and accrued expenses	325,159	191,113
Deferred revenue	26,920	(76,886)
Net cash used in operating activities	(337,403)	(137,090)
Cash flows from investing activities:		
Proceeds from sales of other short-term investments	25,000	—
Purchase of property and equipment	(12,205)	(26,817)
Net cash provided by (used in) investing activities	12,795	(26,817)
Cash flows from financing activity:		
Repayments of notes payable	(28,779)	(16,205)
Net cash used in financing activity	(28,779)	(16,205)
Net decrease in cash and cash equivalents	(353,387)	(180,112)
Cash and cash equivalents, beginning balance	888,993	362,713
Cash and cash equivalents, ending balance	$ 535,606	$ 182,601
Supplemental disclosures of cash flow information:		
Cash paid for interest	$ 787	$ 131

See accompanying notes to financial statements.

PACIFICHEALTH LABORATORIES, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED MARCH 31, 2009 AND 2008
(UNAUDITED)

1. Basis of Presentation

The accompanying unaudited financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions for Form 10-Q. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three months ended March 31, 2009 are not necessarily indicative of the results that may be expected for the year ending December 31, 2009. The unaudited financial statements should be read in conjunction with the financial statements and footnotes thereto included in the Company’s annual report on Form 10-K/A for the year ended December 31, 2008.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenue and expenses during the reporting period. Actual results may differ from these estimates. The significant estimates and assumptions made by the Company are in the area of revenue recognition as it relates to customer returns, inventory obsolescence, allowance for doubtful accounts, valuation allowances for deferred tax assets, restructuring charges, and valuation of share-based payments issued under Statement of Financial Accounting Standards (“SFAS”) No. 123R, “Share-Based Payment” (“SFAS 123R”).

During the first quarter, the Company commenced the marketing and distribution of its new Forze product line. In connection with this activity, the Company has increased its marketing expenditures resulting in a reduction of cash resources. Management believes it is currently on plan in connection with its working capital needs at this point in the product launch cycle. Management expects its cash balances to show further reductions into the second quarter before it begins to see significant sales from this new product line. There can be no assurance that sales from this new product line will materialize as planned. Should such planned sales not materialize, the Company may have to cut discretionary marketing spending or may be required to raise additional capital to sustain operations in the future.

2. Revenue Recognition

Sales are recognized when all of the following criteria are met: (1) persuasive evidence that an arrangement exists; (2) delivery has occurred or services have been rendered; (3) the seller’s price to the buyer is fixed and determinable; and, (4) collectability is reasonably assured. Sales are recorded net of incentives paid to customers.

The Company has a sales agreement with a significant customer for certain products sold to this customer whereby all unsold product is subject to return provisions. The Company recognizes revenue when this major customer sells through its products to its consumers. At March 31, 2009, the Company has deferred $374,865 in revenues related to this customer. At December 31, 2008, the Company had deferred $347,945 in revenues related to this customer.

3. Other Short-Term Investments

Excess cash is invested in auction rate securities with long-term maturities, the interest rates of which are reset periodically (typically between 7 and 35 days) through a competitive bidding process often referred to as a "Dutch auction".

Accordingly, the Company has classified such investments as other short-term investments. During the three months ended March 31, 2009, the Company redeemed $25,000 of these investments.

4. Inventories

As of March 31, 2009 and December 31, 2008, inventories consisted of the following:

	March 31, 2009 (Unaudited)	December 31, 2008
Raw materials	$ 106,986	$ 207,286
Work-in-process	60,476	—
Packaging supplies	44,722	42,861
Finished goods	925,297	902,132
Finished goods on consignment	176,369	156,037
	$ 1,313,850	$ 1,308,316

Included above are reserves against finished goods of $42,339 at March 31, 2009 and December 31, 2008.

5. Stock Based Compensation

The Company accounts for equity instrument issuances in accordance with SFAS 123R, “Share-Based Payment”. Such equity issuances encompass transactions in which an entity exchanges its equity instruments for goods or services including such transactions in which an entity obtains employee services in share-based payment transactions and issuances of stock options to employees. The Company recorded charges of $39,823 and $109,262, respectively, in the three-month periods ended March 31, 2009 and 2008, representing the effect on loss from continuing operations, loss before income taxes and net loss.

The Company granted no stock options to employees and directors during the three months ended March 31, 2009. The Company granted 207,500 stock options to employees and directors during the three months ended March 31, 2008 with exercise prices ranging from $0.45 to $0.55 per share. There were 70,417 options that vest ratably in the first quarter of 2009, 70,417 of these options vest ratably in the first quarter of 2010 and 66,666 of these options vest ratably in the first quarter of 2011. These options were determined to have a total fair value of $87,988. Compensation expense recognized during the three months ended March 31, 2008 for these options amounted to $7,225. These amounts were charged to operations and added to paid-in capital in accordance with SFAS 123R. The total intrinsic value of options exercised during the three months ended March 31, 2009 and 2008 was $0 and $0, respectively.

The Company granted no stock options to consultants during the three months ended March 31, 2009 and 2008.

The Company granted 402,500 warrants to non-employee athlete endorsers during the three months ended March 31, 2009 with an exercise price of $0.14 per share. Of these warrants, 109,167 options vest ratably in the fourth quarter of 2009; 4,167 options vest ratably in the first quarter of 2010; 109,167 of these options vest ratably in the fourth quarter of 2010; 4,167 options vest ratably in the first quarter of 2011; 109,166 of these options vest ratably in the fourth quarter of 2011; 4,166 options vest ratably in the first quarter of 2012; and 62,500 of these options vest ratably in the fourth quarter of 2012. These options were determined to have a total fair value of $38,713. Compensation expense recognized during the three months ended March 31, 2009 for these options amounted to $2,675. These amounts were charged to operations and added to paid-in capital in accordance with SFAS 123R. The Company did not grant any warrants during the three months ended March 31, 2008. No warrants were exercised during the three months ended March 31, 2009 and 2008, respectively.

The Company recognized $27,000 as a component of employee compensation for common shares issuable as payment of directors' fees. No such directors' fees were paid or accrued in the first quarter of 2008.

In summary, compensation charges to operations for the periods presented are as follows:

	Three Months Ended March 31, 2009	2008
Employee compensation	$ 66,823	$ 109,262
Consultant/endorser compensation	2,675	—
	$ 69,498	$ 109,262

A summary of employee options activity under our plans as of March 31, 2009 and changes during the three-month period then ended is presented below:

Options	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Balance, January 1, 2009	2,877,000	$ 0.67		
Granted during the period	—	—		
Exercised during the period	—	—		
Expired during the period	(20,000)	0.20		
Outstanding, March 31, 2009	2,857,000	$ 0.67	2.69	$ —
Exercisable, March 31, 2009	1,790,251	$ 0.78	1.91	$ —

The market value of the Company's common stock as of March 31, 2009 was $0.15 per share.

Non-vested Shares	Shares	Weighted-Average Grant-Date Fair Value
Non-vested, January 1, 2009	1,320,499	$ 0.41
Granted during the period	—	—
Vested during the period	(253,750)	0.49
Forfeited during the period	—	—
Non-vested, March 31, 2009	1,066,749	$ 0.39

As of March 31, 2009, the total fair value of non-vested awards amounted to $365,680. The weighted average remaining period over which such options are expected to be recognized is 2.71 years.

A summary of warrant activity as of March 31, 2009 and changes during the three-month period then ended is presented below:

Warrants	Shares	Weighted-Average Exercise Price	Aggregate Intrinsic Value
Balance, January 1, 2009	27,500	$ 0.88	
Granted during the period	402,500	0.14	
Expired during the period	(27,500)	0.88	
Outstanding, March 31, 2009	402,500	$ 0.14	$ 4,025

6. Income Taxes

The Company has approximately $15,081,000 in federal and $5,641,000 in state net operating loss carryovers generated through December 31, 2008 that can be used to offset future taxable income in calendar years 2009 through 2028. The net operating loss carryovers begin to expire in the year 2016 through the year 2028. As of March 31, 2009, the Company has fully reserved for these net operating loss carryovers.

7. Concentrations

The Company’s largest customer accounted for approximately 19% of net sales for the three months ended March 31, 2009 and the Company’s two largest customers accounted for approximately 16% and 14%, respectively, of net sales for the three months ended March 31, 2008. At March 31, 2009, amounts due from this customer represented approximately 34% of net accounts receivable. At December 31, 2008, amounts due from this customer represented approximately 36% of net accounts receivable. No other customers exceeded 10% of the respective captions noted above.

Three suppliers accounted for approximately 60%, 12% and 10%, respectively, of total inventory purchases for the three months ended March 31, 2009 and two suppliers accounted for approximately 70% and 13%, respectively, of total inventory purchases for the three months ended March 31, 2008. At March 31, 2009, amounts due to these three vendors represented approximately 34%, 8% and 7%, respectively, of accounts payable and accrued expenses. At December 31, 2008, amounts due to these three vendors represented approximately 24%, 5% and 0%, respectively, of accounts payable and accrued expenses. No other vendors exceeded 10% of the respective captions noted above.

8. Line of Credit

In April 2008, the Company obtained a one-year revolving line of credit with a financial institution in the amount of $675,000 with an interest rate equal to the Wall Street Journal Prime Rate (3.25% as of March 31, 2009) with a floor of 5.00%. This line is collateralized by the short-term investments that are deemed auction rate securities. The maximum amount that the Company may borrow is limited to 50% of the value of these auction rate securities as adjusted downward for sales or redemptions. The Company has renewed this one-year revolving line of credit in the amount of $137,500 which now matures in May 2010. As of May 5, 2009, the Company has not drawn down on this line of credit.

9. CEO Separation Agreement

The Company entered into a Separation Agreement with the former CEO effective August 1, 2008. The terms of the agreement consist of twelve equal monthly payments that aggregate $295,000 and include a non-compete clause. In the three months ended March 31, 2009, the Company recognized $73,749 of expense under this Agreement.

10. Reclassification

The Company reclassified $144,234 of sales and marketing expenses from general and administrative expenses as well as reclassified $34,096 of depreciation expense to general and administrative expenses in the quarter ended March 31, 2008 to conform to current year presentation.

11. Subsequent Events

On April 3, 2009, the Company issued 180,000 shares of its common stock valued at $27,000 to the five outside directors of the Company as part of the Director's Compensation package. This amount is recorded as a component of equity instrument-based expense.

On April 3, 2009, the Board of Directors of the Company approved the Company's 2010 Incentive Stock Option Plan consisting of 1,500,000 underlying shares. Such plan will be voted on at the next Annual Meeting currently scheduled to take place on June 10, 2009.

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

In this Report on Form 10-Q, the terms the "Company," "we", "us," and "our" refer to PacificHealth Laboratories, Inc.

(a) Introduction

PacificHealth Laboratories (hereinafter referred to as the "Company", "us", or "we") is a leading nutrition company that was incorporated in the State of Delaware in April 1995. We focus on the development, marketing and selling of patented premium nutrition tools that enable our consumers to enhance their health and improve their performance. Our principal areas of focus are sports performance and recovery, including optimal weight management. Our products can be marketed without prior Food and Drug Administration ("FDA") approval under current regulatory guidelines. Going forward, we expect to become a more commercially oriented consumer driven company that derives performance from its brands and science-based nutrition technology.

We are a pioneer in the development of patented protein-based nutritional products that activate biochemical pathways to enhance muscle endurance and additionally the specific peptides involved in appetite regulation. We employ multiple strategies for the commercialization of our technologies including: 1) launching a brand via highly targeted consumer channels, 2) licensing the technology to a major food or drug company, or 3) a combination of both 1 and 2.

Sports Performance

Our research into factors influencing exercise performance, muscle endurance, and recovery has led to the development and commercialization of a new generation of sports and recovery drinks. The key to our technology is the specific ratio in which protein is combined with carbohydrates. We have received two patents on this technology and over 18 studies have been published demonstrating that products based on this technology can extend endurance, reduce muscle damage, improve rehydration, and accelerate muscle recovery. Our research in exercise performance has led to the introduction and commercialization of a number of products for the aerobic athlete including:

·· ENDUROX R4® Recovery Drink – Introduced in February 1999

·· ACCELERADETM Sports Drink – Introduced in May 2001

·· ACCELERADE HYDROTM Sports Drink with 30% less calories and 55% less sugar – Introduced in June 2008

·· ACCEL GEL® – Introduced in February 2004

·· ENDUROX RESTORETM Recovery Drink for exercise lasting less than one hour – Introduced in April 2008

·· ENDUROX® EXCEL® – Introduced in March 1997

·· ENDUROX EXCEL Natural Workout Supplement to build endurance – Introduced in June 2008

·· ENDUROX EXCEL Electrolyte Replenisher to promote rehydration – Introduced in June 2008

·· ENDUROX EXCEL Antioxidant Regenerator to prevent muscle fatigue – Introduced in June 2008

Weight Regulation

Satiety peptides have been shown to suppress appetite and reduce food intake. Our research has specifically focused on developing nutritional formulations that can stimulate cholecystokin (CCK), one of the body's primary satiety peptides. CCK is normally released after a meal, particularly one high in fat and protein. CCK is often called the "feel full" protein because when it is released it gives a feeling of fullness and signals the brain to terminate the meal. The objective of our research is to develop a nutritional composition that stimulates and extends the duration of action of CCK in a calorically efficient way, i.e. to cause a release of CCK with 45-50 calories of specific nutrients rather than 1,000 calories.

We have continued research in this area in order to develop a more effective composition that could be incorporated into different forms (ready-to-drink beverage, powder beverage, bars, and chewable tablet). Starting in the third quarter of 2003, the Company funded a number of clinical studies on a further improved ready to drink formulation. The new formulation was shown to be significantly better than the previous product in reducing caloric intake, slowing gastric emptying, and extending a feeling of satiation following a meal. We have seven patents on our appetite suppressant technology with additional patents pending. We launched an exclusively on-line brand, SATIATRIM®, in June 2007. To date, we have not generated significant sales from this product line and have subsequently discontinued it.

We have significant plans for this technology under a new brand name (FORZE GPS™) and strategy platform that compliments both our commercial model and strengths. FORZE GPS is the first appetite management nutrition tool designed specifically for athletes. With a patented blend of natural fats, protein and calcium, FORZE GPS activates the body’s natural appetite control signal. Designed to be taken before or between meals as a snack replacement, FORZE GPS helps control hunger thereby allowing our athletes to stick to their nutrition plan and achieve their optimal weight and thereby performance. We launched FORZE GPS in March 2009 and anticipate that it will be commercialized beyond our sports specialty channel in due course.

(b) Results of Operations – Three Months Ended March 31, 2009 and 2008

The U.S. economy is currently experiencing a significant retraction, and it is possible that we will see further economic deterioration in the immediate future. Weakening economic conditions or outlook could reduce the consumption of discretionary products. We expect that much of our revenues will be from retailers whose success is dependent on consumers’ willingness to spend money on these discretionary items. This may adversely affect our revenues, which would adversely affect our business and financial results.

We recorded a net loss of ($405,465), or ($0.03) per share (basic and diluted), for the quarter ended March 31, 2009 compared to a net loss of ($271,405), or ($0.02) per share (basic and diluted), for the quarter ended March 31, 2008. The increased net loss is due primarily to an increase in sales and marketing expenses as detailed below.

Revenues for the three-month period ended March 31, 2009 were $1,695,618 compared to $1,719,375 for the same period in 2008. Revenues decreased 1.4% in the three month period ended March 31, 2009 as compared to the same period in 2008 due to a significant customer not ordering at previous levels. We believe this significant customer will start to order at previous levels shortly.

For the three months ended March 31, 2009, gross profit margin on product sales was 43.7% compared to 45.7% for the three months ended March 31, 2008. The lower gross profit margin in the three month period ended March 31, 2009 as compared to the same period in 2008 is due to initial discounts given to new customers as part of our 2009 marketing plan which includes employing new sales rep organizations to cover the entire United States and better penetrating the sports specialty retailers.

Sales and marketing (“S & M”) expenses increased $171,874 to $316,108 for the three-month period ended March 31, 2009 from $144,234 for the three-month period ended March 31, 2008. The increase is primarily due to increased costs associated with rolling out a new national sales rep organization as well as costs for public relations and marketing associated with the launch of FORZE GPS.

General and administrative (“G & A”) expenses decreased $67,824 to $832,482 for the three-month period ended March 31, 2009 from $900,306 for the three-month period ended March 31, 2008. The decrease is due primarily to the restructuring we undertook in the third quarter of 2008. Included in G & A in the three month period ended March 31, 2009 is approximately $73,500 paid to the former CEO in the form of a non-compete clause pursuant to his Separation

Agreement. These payments will continue at the rate of approximately $24,500 per month through July 31, 2009.

Research and development (“R & D”) expenses were $-0- for the three months ended March 31, 2009 compared to $31,911 for the three months ended March 31, 2008. R & D expenses are lower due to scaling back our R & D program as we transition to a consumer packaged goods company.

12

(c) Liquidity and Capital Resources

At March 31, 2009, our current assets exceeded our current liabilities by approximately $1,849,000 with a ratio of current assets to current liabilities of approximately 2.4 to 1. At March 31, 2009, cash on hand was $535,606, a decrease of $353,387 from December 31, 2008, primarily as the result of a decrease of $25,000 in other short-term investments, an increase of $404,272 in accounts receivable (net of allowances), an increase in inventory of $5,534 (net of reserves), a decrease in prepaid expenses of $9,536, an increase in accounts payable and accrued expenses of $325,159, repayments of notes payable of $28,779, and an increase in deferred revenue of $26,920 from December 31, 2008. Accounts receivable increased at March 31, 2009 from December 31, 2008 due to higher revenues in the first quarter of 2009 as compared to the fourth quarter of 2008. Accounts payable and accrued expenses increased primarily due to better cash management. Deferred revenue increased as a major customer increased its purchases in excess of amounts sold through to the end-user consumers in the first three months of 2009.

As of March 31, 2009, we have $275,000 invested in auction rate securities that are presented as short-term investments on the balance sheet. During the first three months of 2009, we were able to redeem $25,000 of these investments with no gain or loss. We have obtained a revolving line of credit with a financial institution with a maturity of May 2010 that will accept these securities as collateral. The maximum amount that the Company may borrow is limited to 50% of the value of these auction rate securities.

During the quarter ended, we commenced the marketing and distribution of our new Forze product line. In connection with this activity, we increased our marketing expenditures resulting in a reduction of cash resources. We believe we are currently on plan in connection with our working capital needs at this point in the product launch cycle. We expect our cash balances to show further reductions into the second quarter before we begin to see significant sales from this new product line. There can be no assurance that sales from this new product line will materialize as planned. Should such planned sales not materialize, we may have to cut discretionary marketing spending or may be required to raise additional capital to sustain operations in the future.

We have no material commitments for capital expenditures.

(d) Off-Balance Sheet Arrangements

There are no off-balance sheet arrangements between the Company and any other entity that have, or are reasonably likely to have, a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures, or capital resources that is material to investors.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Per Item 305(e) of Regulation S-K, a smaller reporting company is not required to provide the information required by this item.

ITEM 4T. CONTROLS AND PROCEDURES

Evaluation of disclosure controls and procedures. Based on their evaluation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) promulgated under the Exchange Act) as of March 31, 2009, the end of the period covered by this Report, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures are designed to ensure that information required to be disclosed by the 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; that such information is accumulated and disclosed to management, including the Chief Executive Officer and the Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure; and that such disclosure controls and procedures are effective.

Changes in internal control over financial reporting. During the quarter ended March 31, 2009, the Company improved their internal control over financial reporting by implementing certain procedures to ensure that all subsequent events are properly disclosed in the financial statements.

II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

None.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Exhibit Number	Description of Exhibit(1)
3(i)(a)	Certificate of Incorporation of PacificHealth Laboratories, Inc. and all amendments thereto (incorporated by reference to Exhibit 3.1 to PacificHealth Laboratories, Inc.'s Registration Statement on Form SB-2 (Registration No. 333-36379) filed on September 25, 1997)
3(i)(b)	Certificate of Amendment of Certificate of Incorporation of PacificHealth Laboratories, Inc. (incorporated by reference to Exhibit 3.3 to PacificHealth Laboratories, Inc.'s Annual Report on Form 10-KSB filed on March 31, 2003)
3(i)(c)	Certificate of Designations for Series A Preferred Stock (incorporated by reference to Exhibit 3.1 to PacificHealth Laboratories, Inc.'s Current Report on Form 8-K filed on January 28, 2005)
3(i)(d)	Certificate of Designations for Series B Preferred Stock, filed with the Secretary of State of the State of Delaware on April 28, 2005 (incorporated by reference to Exhibit 3(i) to PacificHealth Laboratories, Inc.'s Current Report on Form 8-K filed May 4, 2005)
3(ii)	Amended and Restated Bylaws of PacificHealth Laboratories, Inc. (incorporated by reference to Exhibit 3.2.1 to PacificHealth Laboratories, Inc.'s Amendment No. 3 to Registration Statement on Form SB-2/A filed on December 17, 1997)
4.1	Specimen Common Stock Certificate (incorporated by reference to Exhibit 4.1 to PacificHealth Laboratories, Inc.'s Amendment No. 3 to Registration Statement on Form SB-2/A filed on December 17, 1997)

4.2.1	Form of Securities Purchase Agreement entered into among PacificHealth Laboratories, Inc. and Certain of the Selling Stockholders dated August 26, 2003 (incorporated by reference to Exhibit 4.4 to PacificHealth Laboratories, Inc.'s Registration Statement on Form SB-2 filed

Exhibit Number	Description of Exhibit(1)
	on September 29, 2003)
4.2.2	Form of Registration Rights Agreement entered into among PacificHealth Laboratories, Inc. and Certain of the Selling Stockholders dated August 26, 2003 (incorporated by reference to Exhibit 4.5 to PacificHealth Laboratories, Inc.'s Registration Statement on Form SB-2 filed on September 29, 2003)
4.2.3	Form of Warrant issued to Certain of the Selling Stockholders in connection with Exhibit 4.2.1 on August 26, 2003 (incorporated by reference to Exhibit 4.6 to PacificHealth Laboratories, Inc.'s Registration Statement on Form SB-2 filed on September 29, 2003)
4.3	Stock Purchase Agreement dated June 1, 2001, by and between PacificHealth Laboratories, Inc. and Glaxo Wellcome International B.V. (incorporated by reference to Exhibit 4.1 to PacificHealth Laboratories, Inc.'s Current Report on Form 8-K filed on June 14, 2001)
4.4.1	Series A Preferred Stock Purchase Agreement dated January 28, 2005, by and between PacificHealth Laboratories, Inc. and Hormel HealthLabs, LLC (incorporated by reference to Exhibit 4.3 to PacificHealth Laboratories, Inc.'s Annual Report on Form 10-KSB filed on April 15, 2005)
4.4.2	Investors' Rights Agreement dated January 28, 2005, by and between PacificHealth Laboratories, Inc. and Hormel HealthLabs, LLC (incorporated by reference to Exhibit 4.4 to PacificHealth Laboratories, Inc.'s Annual Report on Form 10-KSB filed on April 15, 2005)
4.4.3	Right of First Refusal and Co-Sale Agreement dated January 28, 2005, by and between PacificHealth Laboratories, Inc., Robert Portman and Hormel HealthLabs, LLC (incorporated by reference to Exhibit 4.5 to PacificHealth Laboratories, Inc.'s Annual Report on Form 10-KSB filed on April 15, 2005)
4.4.4	Certificate of Designations for Series A Preferred Stock (incorporated by reference to Exhibit 3.1 to PacificHealth Laboratories, Inc.'s Current Report on Form 8-K filed on January 28, 2005)
4.5	Certificate of Designations for Series B Preferred Stock, filed with the Secretary of State of the State of Delaware on April 28, 2005 (incorporated by reference to Exhibit 3(i) to PacificHealth Laboratories, Inc.'s Current Report on Form 8-K filed on May 4, 2005)
4.6.1	Securities Purchase Agreement, dated August 24, 2005 by and between PacificHealth Laboratories, Inc. and Hormel HealthLabs, LLC (incorporated by reference to Exhibit 10.1 to PacificHealth Laboratories, Inc.'s Current Report on Form 8-K filed on August 30, 2005)
4.6.2	Amended and Restated Investors' Rights Agreement dated August 24, 2005 between PacificHealth Laboratories, Inc. and Hormel HealthLabs, LLC and any additional investor that becomes a party thereto (incorporated by reference to Exhibit 4.1 to PacificHealth Laboratories, Inc.'s Current Report on Form 8-K filed on August 30, 2005)
4.6.3	Form of Secured Convertible Promissory Note issued in connection with Exhibit 4.6.1 (incorporated by reference to Exhibit 10.2 to PacificHealth Laboratories, Inc.'s Current Report on Form 8-K filed on August 30, 2005)

4.6.4	Security Agreement dated August 24, 2005 by and between PacificHealth Laboratories, Inc. and Hormel HealthLabs, LLC (incorporated by reference to Exhibit 10.3 to PacificHealth Laboratories, Inc.'s Current Report on Form 8-K filed on August 30, 2005)

Exhibit Number	Description of Exhibit(1)
10.1	Employment Extension Agreement between PacificHealth Laboratories, Inc. and Robert Portman effective January 1, 2004, executed February 28, 2006 (incorporated by reference to Exhibit 10.6 to PacificHealth Laboratories, Inc.'s Post-Effective Amendment to Registration Statement on Form SB-2/A (File No. 333-109197) filed on May 2, 2006)
10.2.1	Asset Purchase Agreement dated February 22, 2006, by and between PacificHealth Laboratories, Inc. and Mott's LLP (redacted, subject to request for confidential treatment) (incorporated by reference to Exhibit 10.8 to PacificHealth Laboratories, Inc.'s Annual report on Form 10-KSB filed on March 31, 2006)
10.2.2	License Agreement dated February 22, 2006, by and between PacificHealth Laboratories, Inc. and Mott's LLP (redacted, subject to request for confidential treatment) (incorporated by reference to Exhibit 10.9 to PacificHealth Laboratories, Inc.'s Annual report on Form 10-KSB filed on March 31, 2006)
10.2.3	Consulting, License and Noncompetition Agreement dated February 22, 2006, by and between PacificHealth Laboratories, Inc., Mott's LLP and Robert Portman (redacted, subject to request for confidential treatment) (incorporated by reference to Exhibit 10.10 to PacificHealth Laboratories, Inc.'s Annual report on Form 10-KSB filed on March 31, 2006)
31.1	Rule 13a-14(a) Certification of Chief Executive Officer (filed herewith)
31.2	Rule 13a-14(a) Certification of Chief Financial Officer (filed herewith)
32	Certifications of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith)

(1) In the case of incorporation by reference to documents filed by the Registrant under the Exchange Act, the Registrant's file number under the Exchange Act is 000-23495.

SIGNATURES

In accordance with the requirements of the Exchange Act, the Registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

PACIFICHEALTH LABORATORIES, INC.

By: /S/ STEPHEN P. KUCHEN
STEPHEN P. KUCHEN
Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)

Date: May 6, 2009

16

EXHIBIT INDEX

Exhibit Number	Description of Exhibit(1)
3(i)(a)	Certificate of Incorporation of PacificHealth Laboratories, Inc. and all amendments thereto (incorporated by reference to Exhibit 3.1 to PacificHealth Laboratories, Inc.'s Registration Statement on Form SB-2 (Registration No. 333-36379) filed on September 25, 1997)
3(i)(b)	Certificate of Amendment of Certificate of Incorporation of PacificHealth Laboratories, Inc. (incorporated by reference to Exhibit 3.3 to PacificHealth Laboratories, Inc.'s Annual Report on Form 10-KSB filed on March 31, 2003)
3(i)(c)	Certificate of Designations for Series A Preferred Stock (incorporated by reference to Exhibit 3.1 to PacificHealth Laboratories, Inc.'s Current Report on Form 8-K filed on January 28, 2005)
3(i)(d)	Certificate of Designations for Series B Preferred Stock, filed with the Secretary of State of the State of Delaware on April 28, 2005 (incorporated by reference to Exhibit 3(i) to PacificHealth Laboratories, Inc.'s Current Report on Form 8-K filed May 4, 2005)
3(ii)	Amended and Restated Bylaws of PacificHealth Laboratories, Inc. (incorporated by reference to Exhibit 3.2.1 to PacificHealth Laboratories, Inc.'s Amendment No. 3 to Registration Statement on Form SB-2/A filed on December 17, 1997)
4.1	Specimen Common Stock Certificate (incorporated by reference to Exhibit 4.1 to PacificHealth Laboratories, Inc.'s Amendment No. 3 to Registration Statement on Form SB-2/A filed on December 17, 1997)
4.2.1	Form of Securities Purchase Agreement entered into among PacificHealth Laboratories, Inc. and Certain of the Selling Stockholders dated August 26, 2003 (incorporated by reference to Exhibit 4.4 to PacificHealth Laboratories, Inc.'s Registration Statement on Form SB-2 filed on September 29, 2003)
4.2.2	Form of Registration Rights Agreement entered into among PacificHealth Laboratories, Inc. and Certain of the Selling Stockholders dated August 26, 2003 (incorporated by reference to Exhibit 4.5 to PacificHealth Laboratories, Inc.'s Registration Statement on Form SB-2 filed on September 29, 2003)
4.2.3	Form of Warrant issued to Certain of the Selling Stockholders in connection with Exhibit 4.2.1 on August 26, 2003 (incorporated by reference to Exhibit 4.6 to PacificHealth Laboratories, Inc.'s Registration Statement on Form SB-2 filed on September 29, 2003)
4.3	Stock Purchase Agreement dated June 1, 2001, by and between PacificHealth Laboratories, Inc. and Glaxo Wellcome International B.V. (incorporated by reference to Exhibit 4.1 to PacificHealth Laboratories, Inc.'s Current Report on Form 8-K filed on June 14, 2001)
4.4.1	Series A Preferred Stock Purchase Agreement dated January 28, 2005, by and between PacificHealth Laboratories, Inc. and Hormel HealthLabs, LLC (incorporated by reference to Exhibit 4.3 to PacificHealth Laboratories, Inc.'s Annual Report on Form 10-KSB filed on April 15, 2005)
4.4.2	

Investors’ Rights Agreement dated January 28, 2005, by and between PacificHealth Laboratories, Inc. and Hormel HealthLabs, LLC (incorporated by reference to Exhibit 4.4 to PacificHealth Laboratories, Inc.’s Annual Report on Form 10-KSB filed on April 15, 2005)

Exhibit Number	Description of Exhibit(1)
4.4.3	Right of First Refusal and Co-Sale Agreement dated January 28, 2005, by and between PacificHealth Laboratories, Inc., Robert Portman and Hormel HealthLabs, LLC (incorporated by reference to Exhibit 4.5 to PacificHealth Laboratories, Inc.'s Annual Report on Form 10-KSB filed on April 15, 2005)
4.4.4	Certificate of Designations for Series A Preferred Stock (incorporated by reference to Exhibit 3.1 to PacificHealth Laboratories, Inc.'s Current Report on Form 8-K filed on January 28, 2005)
4.5	Certificate of Designations for Series B Preferred Stock, filed with the Secretary of State of the State of Delaware on April 28, 2005 (incorporated by reference to Exhibit 3(i) to PacificHealth Laboratories, Inc.'s Current Report on Form 8-K filed on May 4, 2005)
4.6.1	Securities Purchase Agreement, dated August 24, 2005 by and between PacificHealth Laboratories, Inc. and Hormel HealthLabs, LLC (incorporated by reference to Exhibit 10.1 to PacificHealth Laboratories, Inc.'s Current Report on Form 8-K filed on August 30, 2005)
4.6.2	Amended and Restated Investors' Rights Agreement dated August 24, 2005 between PacificHealth Laboratories, Inc. and Hormel HealthLabs, LLC and any additional investor that becomes a party thereto (incorporated by reference to Exhibit 4.1 to PacificHealth Laboratories, Inc.'s Current Report on Form 8-K filed on August 30, 2005)
4.6.3	Form of Secured Convertible Promissory Note issued in connection with Exhibit 4.6.1 (incorporated by reference to Exhibit 10.2 to PacificHealth Laboratories, Inc.'s Current Report on Form 8-K filed on August 30, 2005)
4.6.4	Security Agreement dated August 24, 2005 by and between PacificHealth Laboratories, Inc. and Hormel HealthLabs, LLC (incorporated by reference to Exhibit 10.3 to PacificHealth Laboratories, Inc.'s Current Report on Form 8-K filed on August 30, 2005)
10.1	Employment Extension Agreement between PacificHealth Laboratories, Inc. and Robert Portman effective January 1, 2004, executed February 28, 2006 (incorporated by reference to Exhibit 10.6 to PacificHealth Laboratories, Inc.'s Post-Effective Amendment to Registration Statement on Form SB-2 (File No. 333-109197) filed on May 2, 2006)
10.2.1	Asset Purchase Agreement dated February 22, 2006, by and between PacificHealth Laboratories, Inc. and Mott's LLP (redacted, subject to request for confidential treatment) (incorporated by reference to Exhibit 10.8 to PacificHealth Laboratories, Inc.'s Annual report on Form 10-KSB filed on March 31, 2006)
10.2.2	License Agreement dated February 22, 2006, by and between PacificHealth Laboratories, Inc. and Mott's LLP (redacted, subject to request for confidential treatment) (incorporated by reference to Exhibit 10.9 to PacificHealth Laboratories, Inc.'s Annual report on Form 10-KSB filed on March 31, 2006)
10.2.3	Consulting, License and Noncompetition Agreement dated February 22, 2006, by and between PacificHealth Laboratories, Inc., Mott's LLP and Robert Portman (redacted, subject to request for confidential treatment) (incorporated by reference to Exhibit 10.10 to PacificHealth Laboratories, Inc.'s Annual report on Form 10-KSB filed on March 31, 2006)

31.1	Rule 13a-14(a) Certification of Chief Executive Officer (filed herewith)
31.2	Rule 13a-14(a) Certification of Chief Financial Officer (filed herewith)

Exhibit Number	Description of Exhibit(1)
32	Certifications of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith)

(1) In the case of incorporation by reference to documents filed by the Registrant under the Exchange Act, the Registrant's file number under the Exchange Act is 000-23495.