

ChromaDex Corp.
Form 10-Q
May 12, 2016

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 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 April 2, 2016

Commission File Number: 000-53290

CHROMADDEX CORPORATION
(Exact Name of Registrant as Specified in its Charter)

Delaware 26-2940963
(State or other jurisdiction of incorporation or (I.R.S. Employer Identification No.)
organization)

10005 Muirlands Blvd. Suite G, Irvine, California 92618
(Address of Principal Executive Offices) (Zip Code)

Registrant's telephone number, including area code: (949) 419-0288

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 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 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 (Section 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, accelerated filer, non-accelerated filer or smaller reporting company. See definition of "large accelerated filer, accelerated filer and smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer _____ Accelerated filer
Non-accelerated filer _____ Smaller reporting company _____
(Do not check if smaller reporting company)

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

Edgar Filing: ChromaDex Corp. - Form 10-Q

As of May 11, 2016 there were 36,554,481 shares of the registrant's common stock issued and outstanding.



Table of Contents

CHROMADDEX CORPORATION

QUARTERLY REPORT ON FORM 10-Q

TABLE OF CONTENTS

PART I – FINANCIAL INFORMATION (UNAUDITED)

<u>ITEM 1. FINANCIAL STATEMENTS:</u>	1
<u>Condensed Consolidated Balance Sheets as of April 2, 2016 (Unaudited) and January 2, 2016</u>	1
<u>Condensed Consolidated Statements of Operations for the three months ended April 2, 2016 and April 4, 2015 (Unaudited)</u>	2
<u>Condensed Consolidated Statements of Stockholders Equity for the three months ended April 2, 2016 (Unaudited)</u>	3
<u>Condensed Consolidated Statements of Cash Flows for the three months ended April 2, 2016 and April 4, 2015 (Unaudited)</u>	4
<u>Notes to Condensed Consolidated Financial Statements (Unaudited)</u>	5
<u>ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	11
<u>ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	16
<u>ITEM 4. CONTROLS AND PROCEDURES</u>	17
<u>Part II - OTHER INFORMATION</u>	18
<u>ITEM 1. LEGAL PROCEEDINGS</u>	18
<u>ITEM 1A. RISK FACTORS</u>	18
<u>ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS</u>	18
<u>ITEM 3. DEFAULTS UPON SENIOR SECURITIES</u>	18
<u>ITEM 4. MINE SAFETY DISCLOSURES</u>	18
<u>ITEM 5. OTHER INFORMATION</u>	18
<u>ITEM 6. EXHIBITS</u>	18
<u>SIGNATURES</u>	19

Table of Contents

PART I – FINANCIAL INFORMATION (UNAUDITED)

ITEM 1. FINANCIAL STATEMENTS

ChromaDex Corporation and Subsidiaries
Condensed Consolidated Balance Sheets
April 2, 2016 and January 2, 2016

	April 2, 2016 (Unaudited)	January 2, 2016
Assets		
Current assets		
Cash	\$2,995,506	\$5,549,672
Trade receivables, net of allowances of \$339,000 and \$367,000, respectively	4,330,115	2,450,591
Inventories	6,688,920	8,173,799
Prepaid expenses and other assets	359,642	373,567
Total current assets	14,374,183	16,547,629
Leasehold improvements and equipment, net	1,722,768	1,788,645
Deposits	58,726	58,883
Intangible assets, net	357,741	354,052
Longterm investment	20,318	-
Total assets	\$16,533,736	\$18,749,209
Liabilities and stockholders' equity		
Current liabilities		
Accounts payable	\$2,905,105	\$6,223,958
Accrued expenses	1,350,860	1,302,865
Current maturities of loan payable	1,866,713	1,528,578
Current maturities of capital lease obligations	218,919	219,689
Customer deposits and other	339,600	272,002
Deferred rent, current	26,143	39,529
Total current liabilities	6,707,340	9,586,621
Loan payable, less current maturities, net	2,913,854	3,345,335
Capital lease obligations, less current maturities	391,817	444,589
Deferred rent, less current	92,519	97,990
Total liabilities	10,105,530	13,474,535
Commitments and contingencies		
Stockholders' equity		
Common stock, \$.001 par value; authorized 50,000,000 shares; issued and outstanding April 2, 2016 36,180,849 and January 2, 2016 36,003,589 shares		
	36,181	36,004
Additional paid-in capital	48,431,789	47,534,059

Edgar Filing: ChromaDex Corp. - Form 10-Q

Accumulated deficit	(42,039,764)	(42,295,389)
Total stockholders' equity	6,428,206	5,274,674
Total liabilities and stockholders' equity	\$ 16,533,736	\$ 18,749,209

See Notes to Condensed Consolidated Financial Statements.

-1-

Table of Contents

ChromaDex Corporation and Subsidiaries
Condensed Consolidated Statements of Operations (Unaudited)
For the Three Month Periods Ended April 2, 2016 and April 4, 2015

	April 2, 2016	April 4, 2015
Sales, net	\$7,331,945	\$5,260,971
Cost of sales	3,880,526	3,333,347
Gross profit	3,451,419	1,927,624
Operating expenses:		
Sales and marketing	544,722	585,777
Research and development	464,072	121,095
General and administrative	1,988,559	2,126,836
Operating expenses	2,997,353	2,833,708
Operating income (loss)	454,066	(906,084)
Nonoperating income (expense):		
Interest income	794	718
Interest expense	(188,495)	(120,149)
Nonoperating expenses	(187,701)	(119,431)
Income (loss) before taxes	266,365	(1,025,515)
Provision for taxes	(10,740)	-
Net income (loss)	\$255,625	\$(1,025,515)
Basic earnings (loss) per common share	\$0.01	\$(0.03)
Diluted earnings (loss) per common share	\$0.01	\$(0.03)
Basic weighted average common shares outstanding	36,414,041	35,732,866
Diluted weighted average common shares outstanding	37,472,579	35,732,866

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

ChromaDex Corporation and Subsidiaries
Condensed Consolidated Statement of Stockholders' Equity (Unaudited)
For the Three Month Period Ended April 2, 2016

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Stockholders' Equity
	Shares	Amount			
Balance, January 2, 2016	36,003,589	\$36,004	\$47,534,059	\$(42,295,389)	\$ 5,274,674
Issuance of common stock, net of offering costs of \$20,000	128,205	128	479,872	-	480,000
Exercise of stock options	47,055	47	93,825	-	93,872
Share-based compensation	-	-	324,035	-	324,035
Vested restricted stock	2,000	2	(2)	-	-
Net income	-	-	-	255,625	255,625
Balance, April 2, 2016	36,180,849	\$36,181	\$48,431,789	\$(42,039,764)	\$ 6,428,206

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

ChromaDex Corporation and Subsidiaries
Condensed Consolidated Statements of Cash Flows (Unaudited)
For the Three Month Periods Ended April 2, 2016 and April 4, 2015

	April 2, 2016	April 4, 2015
Cash Flows From Operating Activities		
Net income (loss)	\$255,625	\$(1,025,515)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation of leasehold improvements and equipment	82,506	66,902
Amortization of intangibles	11,311	10,124
Share-based compensation expense	324,035	715,909
Allowance for doubtful trade receivables	(28,785)	13,526
Loss from disposal of equipment	-	17,475
Non-cash financing costs	53,449	46,948
Changes in operating assets and liabilities:		
Trade receivables	(1,850,739)	(341,270)
Inventories	1,464,561	502,645
Prepaid expenses and other assets	14,082	(81,584)
Accounts payable	(3,318,853)	(810,658)
Accrued expenses	47,995	149,894
Customer deposits and other	67,598	158,917
Deferred rent	(18,857)	(14,371)
Net cash used in operating activities	(2,896,072)	(591,058)
Cash Flows From Investing Activities		
Purchases of leasehold improvements and equipment	(16,629)	(95,778)
Purchases of intangible assets	(15,000)	(5,000)
Net cash used in investing activities	(31,629)	(100,778)
Cash Flows From Financing Activities		
Proceeds from issuance of common stock, net of issuance costs	480,000	-
Proceeds from exercise of stock options	93,872	-
Principal payments on loan payable	(146,795)	-
Principal payments on capital leases	(53,542)	(57,075)
Net cash provided by (used in) financing activities	373,535	(57,075)
Net decrease in cash	(2,554,166)	(748,911)
Cash Beginning of Period	5,549,672	3,964,750
Cash Ending of Period	\$2,995,506	\$3,215,839
Supplemental Disclosures of Cash Flow Information		
Cash payments for interest	\$135,046	\$73,202
Supplemental Schedule of Noncash Investing Activity		
Capital lease obligation incurred for purchases of equipment	\$-	\$303,933

Edgar Filing: ChromaDex Corp. - Form 10-Q

Inventory supplied free of charge to Healthspan Research, LLC	\$20,318	\$-
Retirement of fully depreciated equipment - cost	\$26,666	\$-
Retirement of fully depreciated equipment - accumulated depreciation	\$(26,666)	\$-

See Notes to Condensed Consolidated Financial Statements.

-4-

Table of Contents

Note 1. Interim Financial Statements

The accompanying financial statements of ChromaDex Corporation (the “Company”) and its wholly owned subsidiaries, ChromaDex, Inc., ChromaDex Analytics, Inc. and Spherix Consulting, Inc. include all adjustments, consisting of normal recurring adjustments and accruals, that, in the opinion of the management of the Company, are necessary for a fair presentation of the Company’s financial position as of April 2, 2016 and results of operations and cash flows for the three months ended April 2, 2016 and April 4, 2015. These unaudited interim financial statements should be read in conjunction with the Company’s audited financial statements and the notes thereto for the year ended January 2, 2016 appearing in the Company’s Annual Report on Form 10-K filed with the Securities and Exchange Commission (the “Commission”) on March 17, 2016. Operating results for the three months ended April 2, 2016 are not necessarily indicative of the results to be achieved for the full year ending on December 31, 2016. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (“GAAP”) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

The balance sheet at January 2, 2016 has been derived from the audited financial statements at that date, but does not include all of the information and footnotes required by GAAP for complete financial statements.

Note 2. Nature of Business and Liquidity

Nature of business: The Company leverages its complementary business units to discover, acquire, develop and commercialize patented and proprietary ingredient technologies that address the dietary supplement, food, beverage, skin care and pharmaceutical markets. In addition to our ingredient technologies unit, we also have business units focused on natural product fine chemicals (known as "phytochemicals"), chemistry and analytical testing services, and product regulatory and safety consulting (known as Spherix Consulting). As a result of our relationships with leading universities and research institutions, we are able to discover and license early stage, Intellectual Property-backed ingredient technologies. We then utilize our in-house chemistry, regulatory and safety consulting business units to develop commercially viable ingredients. Our ingredient portfolio is backed with clinical and scientific research, as well as extensive Intellectual Property protection.

Liquidity: The Company generated income from operations of approximately \$454,000 and net income of approximately \$256,000 for the three-month period ended April 4, 2016. As of April 4, 2016, the cash and cash equivalents totaled approximately \$2,996,000.

While we anticipate that our current cash, cash equivalents and cash to be generated from operations will be sufficient to meet our projected operating plans through at least May 13, 2017, we may require additional funds, either through additional equity or debt financings or collaborative agreements or from other sources. We have no commitments to obtain such additional financing, and we may not be able to obtain any such additional financing on terms favorable to us, or at all. If adequate financing is not available, the Company will further delay, postpone or terminate product and service expansion and curtail certain selling, general and administrative operations. The inability to raise additional financing may have a material adverse effect on the future performance of the Company.

Note 3. Significant Accounting Policies

Basis of presentation: The financial statements and accompanying notes have been prepared on a consolidated basis and reflect the consolidated financial position of the Company and its wholly owned subsidiaries. All significant intercompany balances and transactions have been eliminated from these financial statements. The Company’s fiscal year ends on the Saturday closest to December 31. Every fifth or sixth fiscal year, the inclusion of an extra week

Edgar Filing: ChromaDex Corp. - Form 10-Q

occurs due to the Company's floating year-end date. The fiscal year 2015 ended on January 2, 2016 consisted of normal 52 weeks. The fiscal year 2016 ending on December 31, 2016 will also include the normal 52 weeks.

Inventories: Inventories are comprised of raw materials, work-in-process and finished goods. They are stated at the lower of cost, determined by the first-in, first-out method (FIFO) method, or market. Labor and overhead has been added to inventory that was manufactured or characterized by the Company. The amounts of major classes of inventory as of April 2, 2016 and January 2, 2016 are as follows:

	April 2, 2016	January 2, 2016
Natural product fine chemicals	\$1,094,083	\$1,239,338
Bulk ingredients	5,714,837	7,195,461
	6,808,920	8,434,799
Less valuation allowance	(120,000)	(261,000)
	\$6,688,920	\$8,173,799

Table of Contents

Note 4. Reverse Stock Split

On April 13, 2016, the Company effected a 1 for 3 reverse stock split. All information presented herein has been retrospectively adjusted to reflect the reverse stock split as if they took place as of the earliest period presented. An additional 1,632 shares were issued to round up fractional shares as a result of the reverse stock split.

Note 5. Earnings Per Share Applicable to Common Stockholders

The following table sets forth the computations of earnings per share amounts applicable to common stockholders for the three months ended April 2, 2016 and April 4, 2015:

	Three Months Ended	
	April 2, 2016	April 4, 2015
Net income (loss)	\$255,625	\$(1,025,515)
Basic weighted average common shares outstanding (1):	36,414,041	35,732,866
Basic earnings (loss) per common share	\$0.01	\$(0.03)
Dilutive effect of stock options, net	1,024,428	-
Dilutive effect of warrants, net	34,110	-
Diluted weighted average common shares outstanding :	37,472,579	35,732,866
Diluted earnings (loss) per common share	\$0.01	\$(0.03)
Potentially dilutive securities, total (2):		
Stock options	5,203,419	4,715,657
Warrants	487,110	156,340
Convertible debt (3)	257,798	257,798

(1) Includes 373,289 and 518,029 weighted average nonvested shares of restricted stock for the three months ended April 2, 2016 and April 4, 2015, respectively, which are participating securities that feature voting and dividend rights.

(2) Excluded from the computation of diluted loss per share for the three month period ended April 4, 2015 as their impact is antidilutive.

(3) Excluded from the computation of diluted earnings per share for the three month period ended April 2, 2016 as its impact is antidilutive.

Note 6. Leasehold Improvements and Equipment

Leasehold improvements and equipment consisted of the following:

April 2, 2016	January 2, 2016
------------------	--------------------

Edgar Filing: ChromaDex Corp. - Form 10-Q

Laboratory equipment	\$3,743,330	\$3,737,908
Leasehold improvements	513,453	513,453
Computer equipment	384,120	404,228
Furniture and fixtures	17,056	17,056
Office equipment	24,805	21,547
Construction in progress	5,811	4,420
	4,688,575	4,698,612
Less accumulated depreciation	2,965,807	2,909,967
	\$1,722,768	\$1,788,645

Depreciation expense on leasehold improvements and equipment included in the consolidated statement of operations for the three months ended April 2, 2016 and April 4, 2015 was approximately \$83,000 and \$67,000, respectively.

Table of Contents

Note 7. Loan Payable

Loan payable as of April 2, 2016 consists of the following:

Principal amount payable for following years ending December

2016	\$1,223,659
2017	1,991,688
2018	1,637,858
Total principal payments	4,853,205
Accrued end of term charge	88,436
Total loan payable	4,941,641
Less unamortized debt issuance costs and debt discount	161,074
Less current portion	1,866,713
Loan payable – long term	\$2,913,854

The total interest expenses related to the term loan, including cash interest payments, the amortizations of debt issuance costs and debt discount, and the accrual of the end of term charge were approximately \$175,000 and \$106,000 for the three months ended April 2, 2016 and April 4, 2015, respectively.

Note 8. Share-Based Compensation

Non-Employee Stock Option Plans

The following table summarizes activity of stock options granted to non-employees at April 2, 2016 and changes during the three months then ended:

	Number of Shares	Exercise Price	Weighted Average Remaining Contractual Term	Fair Value	Aggregate Intrinsic Value
Outstanding at January 2, 2016	864,174	\$3.31	6.04		
Options Granted	-	-	-	-	
Options Exercised	(41,667)	1.92			
Options Forfeited	-	-			
Outstanding at April 2, 2016	822,507	\$3.38	5.76		\$824,000
Exercisable at April 2, 2016	815,007	\$3.37	5.73		\$820,000

The aggregate intrinsic values in the table above are based on the Company's stock price of \$4.29, which is the closing price of the Company's stock adjusted for the effect of 1 for 3 reverse split, on the last day of business for the period ended April 2, 2016. The aggregate intrinsic values for options exercised during the three months ended April 2, 2016 was approximately \$98,000.

Note 9. Stock Issuance

On March 11, 2016, the Company entered into Securities Purchase Agreement ("SPA") with a certain existing stockholder to raise \$500,000 in a registered direct offering. Pursuant to the SPA, the Company sold a total of 128,205 Units at a purchase price of \$3.90 per Unit, with each Unit consisting of one share of the Company's common

Edgar Filing: ChromaDex Corp. - Form 10-Q

stock and a warrant to purchase one half of a share of common stock (64,103 total) with an exercise price of \$4.80 and a term of 3 years. The estimated fair value of the warrant was approximately \$108,000 and the warrant was determined to be classified as equity. The fair value was estimated at the date of issuance using the Black-Scholes based valuation model. The table below outlines the assumptions for the warrant issued.

	March 11, 2016	
Fair value of common stock	\$4.41	
Contractual term	3.0 years	
Volatility	60.00	%
Risk-free rate	1.16	%
Expected dividends	0.00	%

-7-

Table of Contents

Note 10. Warrants

The following table summarizes activity of warrants at April 2, 2016 and changes during the three months then ended:

	Number of Shares	Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at January 2, 2016	423,007	\$ 4.02	3.07	
Warrants Issued	64,103	\$ 4.80		
Warrants Exercised	-	-		
Warrants Expired	-	-		
Outstanding and exercisable at April 2, 2016	487,110	\$ 4.12	2.83	\$ 171,000

The aggregate intrinsic value in the table above is based on the Company's stock price of \$4.29, which is the closing price of the Company's stock adjusted for the effect of 1 for 3 reverse split, on the last day of business for the period ended April 2, 2016.

Note 11. Business Segments

The Company has following three reportable segments.

- Ingredients segment develops and commercializes proprietary-based ingredient technologies and supplies these ingredients to the manufacturers of consumer products in various industries including the nutritional supplement, food and beverage and animal health industries.
- Core standards, and contract services segment includes supply of phytochemical reference standards, which are small quantities of plant-based compounds typically used to research an array of potential attributes, reference materials, and related contract services.
- Scientific and regulatory consulting segment which consist of providing scientific and regulatory consulting to the clients in the food, supplement and pharmaceutical industries to manage potential health and regulatory risks.

The "Other" classification includes corporate items not allocated by the Company to each reportable segment. Further, there are no intersegment sales that require elimination. The Company evaluates performance and allocates resources based on reviewing gross margin by reportable segment.

Three months ended April 2, 2016	Ingredients segment	Core Standards and Contract Servicesegment	Scientific and Regulatory Consulting segment	Other	Total
Net sales	\$4,600,626	\$ 2,583,666	\$147,653	\$-	\$7,331,945
Cost of sales	2,099,162	1,671,984	109,380	-	3,880,526

Edgar Filing: ChromaDex Corp. - Form 10-Q

Gross profit	2,501,464	911,682	38,273	-	3,451,419
Operating expenses:					
Sales and marketing	331,743	209,379	3,600	-	544,722
Research and development	464,072	-	-	-	464,072
General and administrative	-	-	-	1,988,559	1,988,559
Operating expenses	795,815	209,379	3,600	1,988,559	2,997,353
Operating income (loss)	\$ 1,705,649	\$ 702,303	\$ 34,673	\$(1,988,559)	\$ 454,066

-8-

Table of Contents

Three months ended April 4, 2015	Ingredients segment	Core Standards and Contract Services segment	Scientific and Regulatory Consulting segment	Other	Total
Net sales	\$2,680,341	\$2,300,043	\$280,587	\$-	\$5,260,971
Cost of sales	1,603,176	1,573,784	156,387	-	3,333,347
Gross profit	1,077,165	726,259	124,200	-	1,927,624
Operating expenses:					
Sales and marketing	274,624	310,944	209	-	585,777
Research and development	121,095	-	-	-	121,095
General and administrative	-	-	-	2,126,836	2,126,836
Operating expenses	395,719	310,944	209	2,126,836	2,833,708
Operating income (loss)	\$681,446	\$415,315	\$123,991	\$(2,126,836)	\$(906,084)

At April 2, 2016	Ingredients segment	Core Standards and Contract Services segment	Scientific and Regulatory Consulting segment	Other	Total
Total assets	\$ 9,566,763	\$ 3,268,647	\$ 89,354	\$ 3,608,972	\$ 16,533,736

At January 2, 2016	Ingredients segment	Core Standards and Contract Services segment	Scientific and Regulatory Consulting segment	Other	Total
Total assets	\$9,105,502	\$3,306,624	\$111,765	\$6,225,318	\$18,749,209

Disclosure of major customers

During the three months ended April 2, 2016, Customer C in our ingredients segment accounted for 27.4% of the Company's total sales. For the three months ended April 4, 2015, we did not have any customers who accounted for more than 10% of the Company's total sales.

Note 12. Related-Party Transactions

On August 28, 2015, the Company entered into an Exclusive Supply Agreement (the "Supply Agreement") with Healthspan Research, LLC ("Healthspan"). Under the terms of the Supply Agreement, Healthspan agreed to purchase

NIAGEN® from the Company and the Company granted to Healthspan worldwide rights for resale of specific dietary supplements containing NIAGEN® in certain markets.

Pursuant to the terms of the Supply Agreement, in exchange for a 4% equity interest in Healthspan, the Company agreed to initially supply NIAGEN® to Healthspan free of charge and thereafter at a fixed price and, in exchange for an additional 5% equity interest in Healthspan, the Company will grant to Healthspan certain exclusive rights to resell NIAGEN® in certain direct response channels. Healthspan will pay the Company royalties on the cumulative worldwide net sales of its finished products containing NIAGEN®. The exclusivity rights will remain for so long as Healthspan meets certain minimum purchase requirements. In the event that, during the initial term, the Company terminates the exclusivity rights due to failure to meet the minimum purchase requirements or for any reason other than a material breach of the Supply Agreement by Healthspan, then the 5% equity interest shall be automatically redeemed for a purchase price of \$1.00 effective upon the date of termination of the exclusivity rights.

Table of Contents

In connection with the foregoing, also on August 28, 2015, the Company and Healthspan entered into an interest purchase agreement and limited liability company agreement pursuant to which the Company was issued 9% of the outstanding equity interests of Healthspan. Rob Fried, a director of the Company, is the manager of Healthspan and owns 91% of the outstanding equity interests of Healthspan. The Supply Agreement, interest purchase agreement and limited liability company agreement were unanimously approved by the independent directors of the Company.

During the three months ended April 2, 2016, the Company shipped NIAGEN® to Healthspan on a buy-one-get-one-free basis. Our cost of NIAGEN® supplied free of charge was approximately \$20,000 and this was recorded as a long term investment at our cost. The Company has applied the cost method of accounting for this equity investment as the Company does not have an ability to exercise significant influence on Healthspan.

Note 13. Commitments and Contingencies

On February 29, 2016, the Company entered into a lease amendment to extend the term of the lease for its laboratory facility located in Boulder, Colorado through April 2023. Pursuant to the lease amendment, the Company will make monthly lease payments ranging from \$23,472 to \$27,210, as the payments escalate during the term of the lease.

On March 4, 2016, the Company entered into a lease amendment to lease an office space located in Rockville, Maryland through April 2021. Pursuant to the lease amendment, the Company will make monthly lease payments ranging from \$3,450 to \$3,883, as the payments escalate during the term of the lease.

Subsequent to the three-month period ended April 2, 2016, the Company entered into a lease to lease an office and laboratory space located in Longmont, Colorado through September 2023. Pursuant to the lease, the Company will make monthly lease payments ranging from \$8,586 to \$11,518, as payments escalate during the term of the lease.

Table of Contents

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

Certain statements in this Management's Discussion and Analysis ("MD&A"), other than purely historical information, including estimates, projections, statements relating to our business plans, objectives and expected operating results, and the assumptions upon which those statements are based, are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements generally can be identified by the use of forward-looking terminology such as "may," "would," "expect," "intend," "could," "estimate," "should," "anticipate," or "believe," or similar expressions. Forward-looking statements are based on current expectations and assumptions that are subject to risks and uncertainties which may cause actual results to differ materially from the forward-looking statements. We undertake no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events, or otherwise. Readers should carefully review the risk factors and related notes included under Item 1A of our Annual Report on Form 10-K for the year ended January 2, 2016 filed with the Securities and Exchange Commission on March 17, 2016.

The following MD&A is intended to help readers understand the results of our operation and financial condition, and is provided as a supplement to, and should be read in conjunction with, our Interim Unaudited Financial Statements and the accompanying Notes to Interim Unaudited Financial Statements under Part 1, Item 1 of this Quarterly Report on Form 10-Q.

Growth and percentage comparisons made herein generally refer to the three months ended April 2, 2016 compared with the three months ended April 4, 2015 unless otherwise noted. Unless otherwise indicated or unless the context otherwise requires, all references in this document to "we," "us," "our," the "Company," and similar expressions refer to ChromaDex Corp., and depending on the context, its subsidiaries.

Overview

The Company leverages its complementary business units to discover, acquire, develop and commercialize patented and proprietary ingredient technologies that address the dietary supplement, food, beverage, skin care and pharmaceutical markets. In addition to the Company's ingredient technologies unit, the Company also has business units focused on natural product fine chemicals, chemistry and analytical testing services, and product regulatory and safety consulting. As a result of the Company's relationships with leading universities and research institutions, the Company is able to discover and license early stage, Intellectual Property-backed ingredient technologies. We utilize our in-house chemistry, regulatory and safety consulting business units to develop commercially viable ingredients. The Company's ingredient portfolio is backed with clinical and scientific research, as well as extensive Intellectual Property protection.

The discussion and analysis of our financial condition and results of operations is based on our financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP"). The preparation of these financial statements requires our management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported revenues, if any, and expenses during the reporting periods. On an ongoing basis, we evaluate such estimates and judgments, including those described in greater detail below. We base our estimates on historical experience and on various other factors that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

As of April 2, 2016, the Company had approximately \$2,996,000 cash and cash equivalents on hand. We anticipate that our current cash and cash equivalents on hand, and cash generated from operations will be sufficient to meet our projected operating plans through at least May 13, 2017. We may, however, seek additional capital prior to May 13, 2017, both to meet our projected operating plans after May 13, 2017 and/or to fund our longer term strategic objectives.

Additional capital may come from public and/or private stock or debt offerings, borrowings under lines of credit or other sources. These additional funds may not be available on favorable terms, or at all. Further, if we issue equity or debt securities to raise additional funds, our existing stockholders may experience dilution and the new equity or debt securities we issue may have rights, preferences and privileges senior to those of our existing stockholders. In addition, if we raise additional funds through collaboration, licensing or other similar arrangements, it may be necessary to relinquish valuable rights to our products or proprietary technologies, or to grant licenses on terms that are not favorable to us. If we cannot raise funds on acceptable terms, we may not be able to develop or enhance our products, obtain the required regulatory clearances or approvals, achieve long term strategic objectives, take advantage of future opportunities, or respond to competitive pressures or unanticipated customer requirements. Any of these events could adversely affect our ability to achieve our development and commercialization goals, which could have a material and adverse effect on our business, results of operations and financial condition. If we are unable to establish small to medium scale production capabilities through our own plant or through collaboration we may be unable to fulfill our customers' requirements. This may cause a loss of future revenue streams as well as require us to look for third party vendors to provide these services. These vendors may not be available, or charge fees that prevent us from pricing competitively within our markets.

Table of Contents

Some of our operations are subject to regulation by various state and federal agencies. In addition, we expect a significant increase in the regulation of our target markets. Dietary supplements are subject to FDA, FTC and U.S. Department of Agriculture regulations relating to composition, labeling and advertising claims. These regulations may in some cases, particularly with respect to those applicable to new ingredients, require a notification that must be submitted to the FDA along with evidence of safety. There are similar regulations related to food additives.

Results of Operations

Our net sales and net income (loss) for the three-month periods ending on April 2, 2016 and April 4, 2015 were as follows:

	Three months ending	
	April 2, 2016	April 4, 2015
Net sales	\$7,332,000	\$5,261,000
Net income (loss)	256,000	(1,026,000)
Basic income (loss) per common share	\$0.01	\$(0.03)
Diluted income (loss) per common share	\$0.01	\$(0.03)

Subject to available financial resources, we plan to continue to increase research and development efforts for our line of proprietary ingredients and invest in a pilot plant facility that has the capability of manufacturing at a process scale for products that we are planning to take to market as well as to explore cost savings processes for existing products.

Net Sales

Net sales consist of gross sales less discounts and returns.

	Three months ending			
	April 2, 2016	April 4, 2015	Change	
Net sales:				
Ingredients	\$4,600,000	\$2,680,000	72	%
Core standards and contract services	2,584,000	2,300,000	12	%
Scientific and regulatory consulting	148,000	281,000	-47	%
Total net sales	\$7,332,000	\$5,261,000	39	%

- The increase in sales for the ingredients segment is mainly due to increased sales of “NIAGEN®.”
- The increase in sales for the core standards and contract services segment is primarily due to increased sales of analytical testing and contract services.
- The decrease in sales for the scientific and regulatory consulting segment is due to the timing of completion of consulting projects for customers and a further emphasis on intercompany work supporting our ingredients segment.

Table of Contents

Cost of Sales

Cost of sales include raw materials, labor, overhead, and delivery costs.

	Three months ending			
	April 2, 2016	April 4, 2015		
	Amount	% of net sales	Amount	% of net sales
Cost of sales:				
Ingredients	\$2,099,000	46 %	\$1,603,000	60 %
Core standards and contract services	1,672,000	65 %	1,574,000	68 %
Scientific and regulatory consulting	110,000	74 %	156,000	56 %
Total cost of sales	\$3,881,000	53 %	\$3,333,000	63 %

The cost of sales, as a percentage of net sales, decreased 10%.

- The decrease in cost of sales, as a percentage of net sales, for the ingredients segment is largely due to price reductions from our suppliers through increased purchase volumes.
- The cost of sales, as a percentage of net sales for the core standards and contract services segment decreased 3%. The increase in analytical testing and contract services sales led to a higher labor utilization rate, which resulted in lowering our cost of sales as a percentage of net sales.
- The percentage increase in cost of sales for the scientific and regulatory consulting segment is largely due to completing less consulting projects as fixed labor costs make up the majority costs for the consulting segment.

Gross Profit

Gross profit is net sales less the cost of sales and is affected by a number of factors including product mix, competitive pricing and costs of products and services.

	Three months ending		
	April 2, 2016	April 4, 2015	Change
Gross profit:			
Ingredients	\$2,501,000	\$1,077,000	132 %
Core standards and contract services	912,000	727,000	25 %
Scientific and regulatory consulting	38,000	124,000	-69 %
Total gross profit	\$3,451,000	\$1,928,000	79 %

- The increased gross profits for the ingredients segment is due to the increased sales of the ingredient portfolio we offer, coupled with lower prices from our suppliers due to increased purchase volumes.
- The increased gross profit for the core standards and contract services segment is largely due to the increased sale of analytical testing and contract services. Fixed labor costs make up the majority of costs for analytical testing and contract services and these fixed labor costs did not increase in proportion to sales, hence yielding higher profit margin.

- The decreased gross profit for the scientific and regulatory consulting segment is largely due to the decrease in sales which resulted in a lower labor utilization rate.

-13-

Table of Contents

Operating Expenses-Sales and Marketing

Sales and Marketing Expenses consist of salaries, advertising and marketing expenses.

	Three months ending			
	April 2, 2016	April 4, 2015	Change	
Sales and marketing expenses:				
Ingredients	\$332,000	\$275,000	21	%
Core standards and contract services	209,000	311,000	-33	%
Scientific and regulatory consulting	4,000	-		
Total sales and marketing expenses	\$545,000	\$586,000	-7	%

- For the ingredients segment, the increase is largely due to increased marketing efforts for our line of proprietary ingredients.
- For the core standards and contract services segment, the decrease is largely due to making certain operational changes as certain personnel who were previously assigned to sales and marketing group were moved to an administrative group. We do anticipate increased expenses going forward as we increase marketing efforts.
- For the scientific and regulatory consulting segment, we did not incur any sales and marketing expenses for the three-month period ended April 4, 2015.

Operating Expenses-Research and Development

Research and Development Expenses mainly consist of clinical trials and process development expenses for our line of proprietary ingredients.

	Three months ending			
	April 2, 2016	April 4, 2015	Change	
Research and development expenses:				
Ingredients	\$464,000	\$121,000	283	%

- All our research and development efforts are for the ingredients segment. For the three-month period ended April 2, 2016, we increased our research and development efforts with a focus on our “NIAGEN®” brand.

Operating Expenses-General and Administrative

General and Administrative Expenses consist of research and development, general company administration, IT, accounting and executive management.

	Three months ending			
	April 2, 2016	April 4, 2015	Change	
General and administrative	\$1,989,000	\$2,127,000	-6	%

- One of the factors that contributed to the decrease in general and administrative expense was a decrease in share-based compensation. For the three-month period ended April 2, 2016, our share-based compensation decreased to approximately \$324,000, compared to approximately \$716,000 for the comparable period in 2015. The decrease in share-based compensation expense was offset by the increase of approximately \$121,000 in expenses associated with administrative staff. We made certain operational changes as certain personnel who were previously assigned to sales and marketing group were moved to an administrative group in 2016. We anticipate increased general and administrative expenses going forward as our operations continue to grow.

Table of Contents

Non-operating income- Interest Income

Interest income consists of interest earned on money market accounts. Interest income for the three-month period ended April 2, 2016 was approximately \$1,000, identical compared to approximately \$1,000 for the three-month period ended April 4, 2015.

Non-operating Expenses- Interest Expense

Interest expense consists of interest on loan payable and capital leases.

	Three months ending			
	April 2, 2016	April 4, 2015	Change	
Interest expense	\$188,000	\$120,000	57	%

- The increase in interest expense was mainly related to the Term Loan Agreement dated September 29, 2014, between the Company and Hercules Technology II, L.P, which the Company drew down first \$2.5 million on September 29, 2014 and second \$2.5 million on June 18, 2015.

Income Taxes

At April 2, 2016 and April 4, 2015, the Company maintained a full valuation allowance against the entire deferred income tax balance which resulted in an effective tax rate of 4% for the three-month period ended April 2, 2016 and 0% for the three-month period ended April 4, 2015.

Depreciation and Amortization

Depreciation expense for the three-month period ended April 2, 2016, was approximately \$83,000 as compared to \$67,000 for the three-month period ended April 4, 2015. We depreciate our assets on a straight-line basis, based on the estimated useful lives of the respective assets. Amortization expense of intangible assets for the three-month period ended April 2, 2016, was approximately \$11,000 as compared to \$10,000 for the three-month period ended April 4, 2015. We amortize intangible assets using a straight-line method over 10 years.

Liquidity and Capital Resources

From inception and through April 2, 2016, we have incurred aggregate losses of approximately \$42 million. These losses are primarily due to expenses associated with the development and expansion of our operations. These operations have been financed through capital contributions, the issuance of common stock and warrants through private placements, and the issuance of debt.

Our board of directors periodically reviews our capital requirements in light of our proposed business plan. Our future capital requirements will remain dependent upon a variety of factors, including cash flow from operations, the ability to increase sales, increasing our gross profits from current levels, reducing selling and administrative expenses as a percentage of net sales, continued development of customer relationships, and our ability to market our new products successfully. However, based on our results from operations, we may determine that we need additional financing to implement our business plan. There can be no assurance that any such financing will be available on terms favorable to us or at all. Without adequate financing we may have to further delay or terminate product and service expansion and curtail certain selling, general and administrative expenses. Any inability to raise additional financing would have

a material adverse effect on us.

While, we anticipate that our current cash and cash equivalents on hand, and cash generated from will be sufficient to meet our projected operating plans through at least May 13, 2017, we may seek additional capital prior to May 13, 2017, both to meet our projected operating plans through and after May 13, 2017 and to fund our longer term strategic objectives. To the extent we are unable to raise additional cash or generate sufficient revenue to meet our projected operating plans prior to May 13, 2017, we will revise our projected operating plans accordingly.

-15-

Table of Contents

Net cash used in operating activities

Net cash used in operating activities for the three months ended April 2, 2016 was approximately \$2,896,000 as compared to approximately \$591,000 for the three months ended April 4, 2015. Decreases in accounts payable and increases in trade receivables were the largest uses of cash during the three-month period ended April 2, 2016. Net cash used in operating activities for the three months ended April 4, 2015 largely reflects a decrease in accounts payable and an increase in trade receivables along with the net loss.

We expect our operating cash flows to fluctuate significantly in future periods as a result of fluctuations in our operating results, shipment timetables, accounts receivable collections, inventory management, and the timing of our payments, among other factors.

Net cash used in investing activities

Net cash used in investing activities was approximately \$32,000 for the three months ended April 2, 2016, compared to approximately \$101,000 for the three months ended April 4, 2015. Net cash used in investing activities for the three months ended April 2, 2016 mainly consisted of purchases of leasehold improvements and equipment and intangible assets. Net cash used in investing activities for the three months ended April 2, 2016 also mainly consisted of purchases of leasehold improvements and equipment and intangible assets.

Net cash provided by (used in) financing activities

Net cash provided by financing activities was approximately \$374,000 for the three months ended April 2, 2016, compared to approximately \$57,000 used in for the nine months ended April 4, 2015. Net cash provided by financing activities for the three months ended April 2, 2016 mainly consisted of proceeds from issuance of our common stock and warrants through a private offering to our existing stockholder, offset by principal payments on loan payable and capital leases. Net cash used in financing activities for the three months ended April 4, 2015 mainly consisted of principal payments on capital leases.

Dividend policy

We have not declared or paid any dividends on our common stock. We presently intend to retain earnings for use in our operations and to finance our business. Any change in our dividend policy is within the discretion of our Board of Directors and will depend, among other things, on our earnings, debt service and capital requirements, restrictions in financing agreements, if any, business conditions, legal restrictions and other factors that our Board of Directors deems relevant.

Off-Balance Sheet Arrangements

During the three months ended April 2, 2016, we had no significant off-balance sheet arrangements other than ordinary operating leases as disclosed in the “Financial Statements and Supplementary Data” section of the Company’s Annual Report on Form 10-K for the year ending January 2, 2016 and filed with the Commission on March 17, 2016.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk

The Company had an outstanding loan payable of approximately \$4.85 million at April 2, 2016. Interest is payable monthly at the greater of either (i) 9.35% plus the prime rate as reported in The Wall Street Journal (the “Prime Rate”)

minus 3.25%, or (ii) 9.35%. If the Prime Rate rises, the Company will incur more interest expenses. The loan is repayable in installments through April 1, 2018.

Our capital lease obligations bear interest at a fixed rate and therefore have no exposure to changes in interest rates.

The Company's cash consists of short term, high liquid investments in money market funds managed by banks. Due to the short-term duration of our investment portfolio and the relatively low risk profile of our investments, a sudden change in interest rates would not have a material effect on either the fair market value of our portfolio, or our operating results or cash flows.

Table of Contents

Foreign Currency Risk

All of our long-lived assets are located within the United States and we do not hold any foreign currency denominated financial instruments.

Effects of Inflation

We do not believe that inflation and changing prices during the three months ended April 2, 2016 and April 4, 2015 had a significant impact on our results of operations.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures pursuant to Rule 13a-15 under the Securities Exchange Act of 1934 as of the end of the period covered by this Quarterly Report on Form 10-Q. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures must reflect the fact that there are resource constraints and that management is required to apply its judgment in evaluating the benefits of possible controls and procedures relative to their costs.

Based on our evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of April 2, 2016, our disclosure controls and procedures are designed at a reasonable assurance level and are effective to provide reasonable assurance that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in SEC rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

There are no changes in internal control over financial reporting (as defined in Rule 13a-15(f) promulgated under the Securities Exchange Act of 1934) that occurred during the Company's first fiscal quarter that has materially affected or is reasonably likely to materially affect the Company's internal control over financial reporting.

Table of Contents

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We are not involved in any legal proceedings which management believes may have a material adverse effect on our business, financial condition, operations, cash flows, or prospects. The Company from time to time is involved in legal proceedings in the ordinary course of our business, which can include employment claims, product claim, patent infringement, etc. We do not believe that any of these claims and proceedings against us as they arise are likely to have, individually or in the aggregate, a material adverse effect on our financial condition or results of operations.

ITEM 1A. RISK FACTORS

There have been no changes to the risk factors set forth in our Annual Report on Form 10-K for the fiscal year ended January 2, 2016.

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

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Exhibit No.	Description of Exhibits
10.1	Supply Agreement, effective as of February 3, 2014, between Elysium Health, Inc. and ChromaDex, Inc. (1)
10.2	Supply Agreement, effective as of June 26, 2014, between Elysium Health, Inc. and ChromaDex, Inc. (1)
10.3	Amendment to Supply Agreement, effective as of February 19, 2016, between Elysium Health, Inc. and ChromaDex, Inc. (1)
10.4	Addendum to the NIAGEN® Supply Agreement, effective as of June 26, 2014, between 5Linx Enterprises, Inc. and ChromaDex, Inc. (1)
10.5	First Amendment to NIAGEN® Supply Agreement, effective as of March 31, 2015, between 5Linx Enterprises, Inc. and ChromaDex, Inc. (1)
10.6	Second Amendment to NIAGEN® Supply Agreement, effective as of March 3, 2016, between 5Linx Enterprises, Inc. and ChromaDex, Inc. (1)
31.1	Certification of the Chief Executive Officer pursuant to §240.13a-14 or §240.15d-14 of the Securities Exchange Act of 1934, as amended

Edgar Filing: ChromaDex Corp. - Form 10-Q

- 31.2 Certification of the Chief Financial Officer pursuant to §240.13a-14 or §240.15d-14 of the Securities Exchange Act of 1934, as amended
- 32.1 Certification pursuant to 18 U.S.C. Section 1350 (as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002)

(1) A redacted version of this Exhibit is filed herewith. An un-redacted version of this Exhibit has been separately filed with the Commission pursuant to an application for confidential treatment. The confidential portions of the Exhibit have been omitted and are marked by an asterisk.

Table of Contents

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.

CHROMADEX CORPORATION

Date: May 12, 2016

/s/ THOMAS C. VARVARO
Thomas C. Varvaro
Duly Authorized Officer and Chief Financial Officer