ChromaDex Corp.
Form 10-Q
August 09, 2012

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

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2012

Commission File Number: 000-53290

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

Delaware (State or other jurisdiction of incorporation or organization)	26-2940963 (I.R.S. Employer Identification No.)
10005 Muirlands Blvd. Suite G, Irvine, California (Address of Principal Executive Offices)	92618 (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 [X] 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 [X] 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 [X]
Non-accelerated filer ____ (Do not check if smaller reporting company)	Smaller reporting company [X]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes

__ No [X]

Number of shares of common stock of the registrant: 92,635,959 outstanding as of August 8, 2012.

CHROMADEX CORPORATION
2012 QUARTERLY REPORT ON FORM 10-Q

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PART I – FINANCIAL INFORMATION (UNAUDITED)

ITEM 1. FINANCIAL STATEMENTS

ChromaDex Corporation and Subsidiaries
Condensed Consolidated Balance Sheets (Unaudited)
June 30, 2012 and December 31, 2011

		June 30, 2012		December 31, 2011
Assets				
Current Assets				
Cash	$	2,213,009	$	420,152
Trade receivables, less allowance for doubtful accounts June 30, 2012 $15,000; December 31, 2011 $9,000		988,202		723,666
Inventories		5,253,797		2,905,600
Prepaid expenses and other assets		522,766		903,934
Total current assets		8,977,774		4,953,352
Leasehold Improvements and Equipment, net		1,066,661		1,172,288
Deposits and Other Noncurrent Assets				
Deposits		55,800		44,159
Intangible assets, net		95,307		100,106
Total deposits and other noncurrent assets		151,107		144,265
Total assets	$	10,195,542	$	6,269,905
Liabilities and Stockholders' Equity				
Current Liabilities				
Accounts payable	$	3,401,382	$	2,250,241
Accrued expenses		542,446		755,967
Current maturities of capital lease obligations		76,892		77,356
Customer deposits and other		169,612		199,693
Deferred rent, current		63,370		59,743
Total current liabilities		4,253,702		3,343,000
Capital lease obligations, less current maturities		171,173		164,729
Deferred rent, less current		167,229		200,890
Stockholders' Equity				
Common stock, $.001 par value; authorized 150,000,000 shares; issued and outstanding June 30, 2012 90,313,834 shares; December 31, 2011 72,939,996 shares		90,314		72,940
Additional paid-in capital		31,993,120		20,542,532
Accumulated deficit		(26,479,996)		(18,054,186)
Total stockholders' equity		5,603,438		2,561,286

Total liabilities and stockholders' equity	$	10,195,542	$	6,269,905

See Notes to Condensed Consolidated Financial Statements.

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ChromaDex Corporation and Subsidiaries
Condensed Consolidated Statements of Operations (Unaudited)
For the Three Month Periods Ended June 30, 2012 and July 2, 2011

	June 30, 2012	July 2, 2011
Sales	$ 2,670,611	$ 1,937,976
Cost of sales	1,905,916	1,357,058
Gross profit	764,695	580,918
Operating expenses:		
Sales and marketing	1,868,418	565,975
General and administrative	2,883,728	1,849,733
Operating expenses	4,752,146	2,415,708
Operating loss	(3,987,451)	(1,834,790)
Nonoperating income (expense):		
Interest income	1,056	430
Interest expense	(7,562)	(8,209)
Nonoperating expenses	(6,506)	(7,779)
Net loss	$ (3,993,957)	$ (1,842,569)
Basic and Diluted loss per common share	$ (0.04)	$ (0.03)
Basic and Diluted weighted average common shares outstanding	91,362,664	65,001,979

See Notes to Condensed Consolidated Financial Statements.

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ChromaDex Corporation and Subsidiaries
Condensed Consolidated Statements of Operations (Unaudited)
For the Six Month Periods Ended June 30, 2012 and July 2, 2011

	June 30, 2012	July 2, 2011
Sales	$ 4,455,617	$ 4,477,221
Cost of sales	4,295,136	2,875,907
Gross profit	160,481	1,601,314
Operating expenses:		
Sales and marketing	3,727,080	1,011,482
General and administrative	4,845,639	3,572,568
Operating expenses	8,572,719	4,584,050
Operating loss	(8,412,238)	(2,982,736)
Nonoperating income (expense):		
Interest income	2,255	864
Interest expense	(15,827)	(17,082)
Nonoperating expenses	(13,572)	(16,218)
Net loss	$ (8,425,810)	$ (2,998,954)
Basic and Diluted loss per common share	$ (0.10)	$ (0.05)
Basic and Diluted weighted average common shares outstanding	88,034,429	63,973,139

See Notes to Condensed Consolidated Financial Statements.

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ChromaDex Corporation and Subsidiaries
Condensed Consolidated Statement of Stockholders' Equity (Unaudited)
Six Months Ended June 30, 2012

	Common Stock		Additional Paid-in	Accumulated	Total Stockholders'
	Shares	Amount	Capital	Deficit	Equity
Balance, December 31, 2011	72,939,996	$72,940	$20,542,532	$(18,054,186)	$ 2,561,286
Share-based compensation	364,557	365	65,622	-	65,987
Issuance of common stock, net of offering costs of $1,104,759	14,899,995	14,900	10,055,338	-	10,070,238
Net loss	-	-	-	(4,431,853)	(4,431,853)
Balance, March 31, 2012	88,204,548	88,205	30,663,492	(22,486,039)	8,265,658
Share-based compensation	1,265,000	1,265	1,197,272	-	1,198,537
Issuance of common stock for vested restricted stock	630,000	630	87,570	-	88,200
Exercise of warrants	214,286	214	44,786	-	45,000
Net loss	-	-	-	(3,993,957)	(3,993,957)
Balance, June 30, 2012	90,313,834	$90,314	$31,993,120	$(26,479,996)	$ 5,603,438

See Notes to Condensed Consolidated Financial Statements.

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ChromaDex Corporation and Subsidiaries
Condensed Consolidated Statements of Cash Flows (Unaudited)
For the Six Month Periods Ended June 30, 2012 and July 2, 2011

	June 30, 2012	July 2, 2011
Cash Flows From Operating Activities		
Net loss	$ (8,425,810)	$ (2,998,954)
Adjustments to reconcile net loss to net cash (used in) operating activities:		
Depreciation	166,748	165,878
Amortization of intangibles	6,799	36,850
Share-based compensation expense	1,264,524	1,505,723
Loss from disposal of equipment	1,879	-
Changes in operating assets and liabilities:		
Trade receivables	(264,536)	159,684
Inventories	(2,348,197)	(551,495)
Prepaid expenses and other assets	369,527	(429,350)
Accounts payable	1,151,141	842,408
Accrued expenses	(213,521)	173,114
Customer deposits and other	(30,081)	46,840
Deferred rent	(30,034)	(10,837)
Net cash (used in) operating activities	(8,351,561)	(1,060,139)
Cash Flows From Investing Activities		
Purchases of leasehold improvements and equipment	(12,214)	(102,954)
Purchase of intangible assets	(2,000)	(15,000)
Net cash (used in) investing activities	(14,214)	(117,954)
Cash Flows From Financing Activities		
Proceeds from issuance of common stock	10,158,438	-
Proceeds from exercise of stock options	-	26,398
Proceeds from exercise of warrants	45,000	1,007,998
Principal payments on capital leases	(44,806)	(37,914)
Net cash provided by financing activities	10,158,632	996,482
Net increase (decrease) in cash	1,792,857	(181,611)
Cash Beginning of Period	420,152	2,226,459
Cash Ending of Period	$ 2,213,009	$ 2,044,848
Supplemental Disclosures of Cash Flow Information		
Cash payments for interest	$ 15,827	$ 17,082
Supplemental Schedule of Noncash Investing Activity		
Capital lease obligation incurred for the purchase of equipment	$ 50,786	$ -

See Notes to Condensed Consolidated Financial Statements.

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Note 1. Interim Financial Statements

The accompanying financial statements of ChromaDex Corporation (the "Company") and its wholly owned subsidiaries, ChromaDex, Inc. and ChromaDex Analytics, 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 our financial position as of June 30, 2012 and results of operations and cash flows for the three and six months ended June 30, 2012 and July 2, 2011. 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 December 31, 2011 appearing in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission (the "Commission") on March 15, 2012. Operating results for the six months ended June 30, 2012 are not necessarily indicative of the results to be achieved for the full year ending on December 29, 2012. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 December 31, 2011 has been derived from the audited financial statements at that date, but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements.

Note 2. Nature of Business and Significant Accounting Policies

Nature of business: The Company is a natural products company that provides proprietary, science-based solutions and ingredients to the dietary supplement, food and beverage, cosmetic and pharmaceutical industries. The Company supplies ingredients, phytochemical reference standards and related phytochemical products and services. The Company recently launched its BluScience retail consumer line based on its proprietary ingredients. The Company provides these products and services at various terms.

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, and the Company's normal fiscal quarters end on the Saturday 13 weeks after the last fiscal year end or fiscal quarter end. Every fifth or sixth fiscal year, the inclusion of an extra week occurs due to the Company's floating year-end date. The fiscal year 2014 will include 53 weeks instead of 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. The inventory on the balance sheet is recorded net of valuation allowances of $253,000 and $227,000 for the periods ended June 30, 2012 and December 31, 2011, respectively. Labor and overhead has been added to inventory that was manufactured or characterized by the Company. The amounts of major classes of inventory for the periods ended June 30, 2012 and December 31, 2011 are as follows:

	June 30, 2012	December 31, 2011
Reference standards	$ 1,515,592	$ 1,459,330
Bulk ingredients	178,584	174,847
Dietary supplements – raw materials	1,059,471	709,476
Dietary supplements – work in process	38,295	38,293

Dietary supplements – finished goods		2,714,855		750,654
		5,506,797		3,132,600
Less valuation allowance		253,000		227,000
	$	5,253,797	$	2,905,600

Earnings per share: Potentially dilutive common shares consist of the incremental common shares issuable upon the exercise of common stock options and warrants for all periods. For all periods presented, the basic and diluted shares reported are equal because the common share equivalents are anti-dilutive. Below is a tabulation of the potentially dilutive securities that were "in the money" for the three and six month periods ended June 30, 2012 and July 2, 2011.

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	Three Months Ended June 30, 2012	Three Months Ended July 2, 2011	Six Months Ended June 30, 2012	Six Months Ended July 2, 2011
Basic weighted average common shares outstanding	91,362,664	65,001,979	88,034,429	63,973,139
Warrants and options in the money, net	5,693,386	14,532,466	6,101,236	15,183,686
Weighted average common shares outstanding assuming dilution	97,056,050	79,534,445	94,135,665	79,156,825

Total warrants and options that were not “in the money” at June 30, 2012 and July 2, 2011 were 15,071,066 and 1,778,350, respectively.

Note 3. Leasehold Improvements and Equipment

Leasehold improvements and equipment consisted of the following:

	June 30, 2012	December 31, 2011
Laboratory equipment	$ 2,415,463	$ 2,378,122
Leasehold improvements	403,971	403,971
Computer equipment	356,962	302,518
Furniture and fixtures	18,313	18,313
Office equipment	7,877	7,877
Construction in progress	107,557	149,086
	3,310,143	3,259,887
Less accumulated depreciation	2,243,482	2,087,599
	$ 1,066,661	$ 1,172,288

Note 4. Employee Share-Based Compensation

Stock Option Plans

At the discretion of the Compensation Committee, and with the approval of the Board of Directors, the Company may grant options to purchase the Company’s common stock to certain individuals from time to time. Management and the Compensation Committee determine the terms of awards which include the exercise price, vesting conditions and expiration dates at the time of grant. Expiration dates for stock options are not to exceed 10 years from their date of issuance. The Company, under its Second Amended and Restated 2007 Equity Incentive Plan, is authorized to issue stock options that total no more than 20% of the shares of common stock issued and outstanding, as determined on a fully diluted basis. Beginning in 2007, stock options were no longer issuable under the Company’s 2000 Non-Qualified Incentive Stock Plan. The remaining amount available for issuance under the Second Amended and Restated 2007 Equity Incentive Plan totaled 5,604,606 at June 30, 2012. The stock option awards generally vest ratably over a four-year period following grant date after a passage of time. However, some stock option awards are performance based and vest based on the achievement of certain criteria established by the Compensation Committee, subject to approval by the Board of Directors.

The fair value of the Company’s stock options was estimated at the date of grant using the Black-Scholes based option valuation model. The table below outlines the weighted average assumptions for options granted to employees during the six months ended June 30, 2012.

Six Months Ended June 30, 2012	2012	
Volatility	33.03	%
Expected dividends	0.00	%
Expected term	5.8 years	
Risk-free rate	1.10	%

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The Company calculated expected volatility from the volatility of publicly held companies in similar industries, as the historical volatility of the Company's common stock does not cover the period equal to the expected life of the options. The dividend yield assumption is based on the Company's history and expectation of future dividend payouts on the common stock. The risk-free interest rate is based on the implied yield available on U.S. treasury zero-coupon issues with an equivalent remaining term. The expected term of the options represents the estimated period of time until exercise and is based on historical experience of awards, giving consideration to the contractual terms, vesting schedules and expectations of future employee behavior. The estimation process for the fair value of performance based stock options was the same as for service period based options.

1) Service Period Based Stock Options

The majority of options granted by the Company consist of service period based options granted to employees. These options vest ratably over a defined period following grant date after the passage of a service period.

The following table summarizes service period based stock option activity at June 30, 2012, and changes during the six months then ended:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at December 31, 2011	13,895,872	$1.53		
Options Granted	3,540,000	0.84		
Options Exercised	-	-		
Options Forfeited	(4,573,384)	1.03		
Outstanding at June 30, 2012	12,862,488	$1.52	6.11	$98,744
Exercisable at June 30, 2012	9,854,670	$1.51	6.05	$79,276

The aggregate intrinsic values in the table above are before income taxes, based on the Company's closing stock price of $0.69 on the last day of business for the period ended June 30, 2012.

2) Performance Based Stock Options

The Company also grants stock option awards that are performance based and vest based on the achievement of certain criteria established from time to time by the Compensation Committee. If these performance criteria are not met, the compensation expenses are not recognized and the expenses that have been recognized will be reversed.

The following table summarizes performance based stock options activity at June 30, 2012 and changes during the six months then ended:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at December 31, 2011	1,200,000	$1.64		
Options Granted	-	-		

Options Exercised	-	-		
Options Forfeited	(1,000,000)	1.65		
Outstanding at June 30, 2012	200,000	$1.59	8.72	$-
Exercisable at June 30, 2012	60,416	$1.59	8.71	$-

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On February 13, 2012, William Spengler, our former President, ceased serving in all positions held with the Company. 1,000,000 performance based stock options Mr. Spengler held were forfeited. Expense recognized related to these forfeited options was reversed during the six months ended June 30, 2012, as the performance criteria established by the Company were not met. The reversed expense amount the Company had recognized through December 31, 2011 was $528,300.

As of June 30, 2012, there was $1,133,184 of total unrecognized compensation expense related to nonvested share-based compensation arrangements granted under the plans for employee stock options. That cost is expected to be recognized over a weighted average period of 1.38 years as of June 30, 2012. The weighted average fair value of options granted during the six months ended June 30, 2012 and July 2, 2011 was $0.30 and $0.53, respectively. The realized tax benefit from stock options for the six months ended June 30, 2012 and July 2, 2011 was $0, based on the Company's election of the "with and without" approach.

Restricted Stock

Restricted stock awards granted by the Company to employees generally have a vesting condition that is tied to the performance of the Company's stock price.

The following table summarizes activity of restricted stock awards granted to employees at June 30, 2012 and changes during the six months then ended:

	Shares	Weighted Average Award-Date Fair Value
Unvested shares at December 31, 2011	1,000,000	$ 1.27
Granted	2,250,000	0.69
Vested	-	-
Forfeited	(2,750,000)	0.95
Unvested shares at June 30, 2012	500,000	$ 0.43
Expected to Vest as of June 30, 2012	500,000	$ 0.43

The fair values of these restricted stock awards were estimated at the dates of award using the Hull-White based binomial valuation model. The table below outlines the weighted average assumptions of restricted stock awarded to employees during the six months ended June 30, 2012.

Six Month Ended June 30, 2012	2012	
Expected Term	3.50	
Expected Volatility	72.98	%
Expected Dividends	0.00	%
Risk Free Rate of Return	0.46	%

The Company calculated expected volatility from the volatility of publicly held companies in similar industries as well as the historical volatility of the Company's common stock. Less weight was assigned to the volatility of the Company's common stock as the historical volatility of Company's common stock covers only about four years in a thinly traded market. The dividend yield assumption is based on the Company's history and expectation on future dividend payouts on the common stock. The risk-free interest rate is based on the implied yield available on U.S. treasury zero-coupon issues with an equivalent remaining term. The Company used the expected vesting period of the restricted stock for estimating the expected term of the restricted stock.

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On February 13, 2012, William Spengler, our former President, ceased serving in all positions he held with the Company. 1,000,000 restricted shares of our common stock held by Mr. Spengler were forfeited. Expense recognized related to these forfeited restricted stock award was reversed during the six months ended June 30, 2012, as the vesting conditions established by the Company, including continuous employment through November 15, 2013, were not met. The reversed expense amount the Company had recognized through December 31, 2011 was $476,411.

On February 7, 2012, the Company awarded 1,000,000 shares of restricted stock to our former Chief Executive Officer and President, Jeffrey Himmel and on February 21, 2012, the Company awarded 750,000 shares of restricted stock to our former Chief Operating Officer, Debra Heim. On June 11, 2012, both Mr. Himmel and Ms. Heim ceased serving in all positions held with the Company and restricted shares held by Mr. Himmel and Ms. Heim were forfeited. Expense recognized related to these forfeited restricted stock awards was reversed.

On June 6, 2012, the Company awarded 250,000 shares of restricted stock to each of our Chief Executive Officer, Frank Jaksch and our Chief Financial Officer, Thomas Varvaro. These shares shall vest upon the earlier to occur of the following: (i) the market price of the Company's stock exceeds a certain price, or (ii) one of other certain triggering events. These restricted shares, however, shall under no circumstances vest on or before December 6, 2012.

As of June 30, 2012, there was $185,711 of total unrecognized compensation expense related to restricted stock awards to employees under the plans. This cost is expected to be recognized over a period of 5.3 months as of June 30, 2012.

Stock Awards

From time to time, the Company awards shares of its common stock to executives and members of the Board of Directors as part of its overall compensation program. On February 7, 2012, the Company awarded 100,000 shares of common stock to Jeffrey Himmel, our former Chief Executive Officer and President, pursuant to the Employment Agreement with Mr. Himmel. The fair value of these awarded shares was estimated at the date of award using the Company's stock price. Since these shares are immediately vested, the award is deemed to be fully earned upon issuance and the full fair value, $94,000, was expensed on the date of award. On February 21, 2012, the Company awarded 75,000 shares of common stock to Debra Heim, our former Chief Operating Officer, pursuant to the Employment Agreement with Ms. Heim. The fair value of these awarded shares was estimated at the date of award using the Company's stock price. Since these shares are immediately vested, the award is deemed to be fully earned upon issuance and the full fair value, $60,000, was expensed on the date of award. On June 6, 2012, the Company awarded 500,000 shares of common stock to each of Michael Brauser and Barry Honig, who are Co-Chairmen of the Board of Directors. The fair value of these awarded shares was estimated at the date of award using the Company's stock price. Since these shares are immediately vested, the awards are deemed to be fully earned upon issuance and the full fair value, $690,000, or $345,000 each, was expensed on the date of award.

For employee share-based compensation, the Company recognized share-based compensation expense of $643,825 in general and administrative expenses in the statement of operations for the six months ended June 30, 2012. The Company recognized $1,330,078 in share-based compensation expense for the comparable period in 2011.

Note 5. Non-Employee Share-Based Compensation

Stock Option Plans

At the discretion of management, working with the Compensation Committee, and with approval of the Board of Directors, the Company may grant options to purchase the Company's common stock to certain individuals from time to time who are not employees of the Company. These options are granted under the Second Amended and Restated

2007 Equity Incentive Plan of the Company and are granted on the same terms as those being issued to employees. Stock options granted to non-employees are accounted for using the fair value approach. The fair value of non-employee option grants are estimated using the Black-Scholes option-pricing model and are remeasured over the vesting term until earned. The estimated fair value is expensed over the applicable service period.

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The following table summarizes the activity of stock options granted to non-employees at June 30, 2012, and changes during the six months then ended:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at December 31, 2011	1,097,300	$ 1.23		
Options Granted	-	-		