ChromaDex Corp.
Form 10-Q
May 14, 2015

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 April 4, 2015

Commission File Number: 000-53290

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

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

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 o

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

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

Number of shares of common stock of the registrant: 107,421,275 outstanding as of May 13, 2015.

CHROMADEX CORPORATION

2015 QUARTERLY REPORT ON FORM 10-Q

TABLE OF CONTENTS

Table of Contents

PART I – FINANCIAL INFORMATION (UNAUDITED)

ITEM 1. FINANCIAL STATEMENTS

ChromaDex Corporation and Subsidiaries

Condensed Consolidated Balance Sheets
April 4, 2015 and January 3, 2015

Assets	April 4, 2015 Unaudited	January 3, 2015 Audited
Current Assets		
Cash	$3,215,839	$3,964,750
Trade receivables, less allowance for doubtful accounts and returns April 4, 2015 $51,000; January 3, 2015 $38,000	2,234,453	1,906,709
Inventories	3,231,696	3,734,341
Prepaid expenses and other assets	374,350	292,891
Total current assets	9,056,338	9,898,691
Leasehold Improvements and Equipment, net	1,579,994	1,264,660
Other Noncurrent Assets		
Deposits	57,560	57,435
Intangible assets, net	290,937	296,061
Total other noncurrent assets	348,497	353,496
Total assets	$10,984,829	$11,516,847
Liabilities and Stockholders' Equity		
Current Liabilities		
Accounts payable	$2,640,950	$3,451,608
Accrued expenses	1,003,579	853,685
Current maturities of loan payable	452,672	223,358
Current maturities of capital lease obligations	207,413	148,278
Customer deposits and other	393,352	234,435
Deferred rent, current	73,942	69,456
Total current liabilities	4,771,908	4,980,820
Loan payable, less current maturities, net	1,794,747	1,977,113
Capital lease obligations, less current maturities	610,738	423,015
Deferred rent, less current	118,651	137,508
Total liabilities	7,296,044	7,518,456

Commitments and contingencies		
Stockholders' Equity		
Common stock, $.001 par value; authorized 150,000,000 shares; issued and outstanding April 4, 2015 105,987,058 and January 3, 2015 105,271,058 shares	105,987	105,271
Additional paid-in capital	44,132,635	43,417,442
Accumulated deficit	(40,549,837)	(39,524,322)
Total stockholders' equity	3,688,785	3,998,391
Total liabilities and stockholders' equity	$10,984,829	$11,516,847

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

ChromaDex Corporation and Subsidiaries

Condensed Consolidated Statements of Operations (Unaudited)
For the Three Month Periods Ended April 4, 2015 and March 29, 2014

	April 4, 2015	March 29, 2014
Sales, net	$5,260,971	$3,074,138
Cost of sales	3,333,347	2,089,130
Gross profit	1,927,624	985,008
Operating expenses:		
Sales and marketing	585,777	464,567
General and administrative	2,247,931	2,337,663
Loss from investment in affiliate	-	21,543
Operating expenses	2,833,708	2,823,773
Operating loss	(906,084)	(1,838,765)
Nonoperating income (expense):		
Interest income	718	640
Interest expense	(120,149)	(9,891)
Nonoperating expenses	(119,431)	(9,251)
Net loss	$(1,025,515)	$(1,848,016)
Basic and Diluted loss per common share	$(0.01)	$(0.02)
Basic and Diluted weighted average common shares outstanding	107,198,597	106,076,361

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 4, 2015

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated Deficit	Total Stockholders' Equity
Balance, January 3, 2015	105,271,058	$105,271	$43,417,442	$(39,524,322)	$ 3,998,391
Share-based compensation	216,000	216	715,693	-	715,909
Vested restricted stock	500,000	500	(500)	-	-
Net loss	-	-	-	(1,025,515)	(1,025,515)
Balance, April 4, 2015	105,987,058	$105,987	$44,132,635	$(40,549,837)	$ 3,688,785

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 4, 2015 and March 29, 2014

	April 4, 2015	March 29, 2014
Cash Flows From Operating Activities		
Net loss	$(1,025,515)	$(1,848,016)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation of leasehold improvements and equipment	66,902	50,919
Amortization of intangibles	10,124	7,633
Share-based compensation expense	715,909	999,661
Allowance for doubtful trade receivables	13,526	7,110
Gain on sale of equipment	-	(103)
Loss from disposal of equipment	17,475	-
Loss from investment in affiliate	-	21,543
Non-cash financing costs	46,948	-
Changes in operating assets and liabilities:		
Trade receivables	(341,270)	(835,758)
Other receivable	-	215,000
Inventories	502,645	(288,652)
Prepaid expenses and other assets	(81,584)	(123,367)
Accounts payable	(810,658)	481,159
Accrued expenses	149,894	74,894
Customer deposits and other	158,917	(157,020)
Deferred rent	(14,371)	(9,788)
Net cash used in operating activities	(591,058)	(1,404,785)
Cash Flows From Investing Activities		
Purchases of leasehold improvements and equipment	(95,778)	(14,623)
Purchases of intangible assets	(5,000)	(5,000)
Proceeds from sale of equipment	-	1,356
Proceeds from investment in affiliate	-	1,092,500
Net cash (used in) provided by investing activities	(100,778)	1,074,233
Cash Flows From Financing Activities		
Proceeds from exercise of stock options	-	27,100
Principal payments on capital leases	(57,075)	(33,346)
Net cash used in financing activities	(57,075)	(6,246)
Net decrease in cash	(748,911)	(336,798)
Cash Beginning of Period	3,964,750	2,261,336
Cash Ending of Period	$3,215,839	$1,924,538

Supplemental Disclosures of Cash Flow Information		
Cash payments for interest	$73,202	$9,891
Supplemental Schedule of Noncash Investing Activity		
Capital lease obligation incurred for purchases of equipment	$303,933	$-
Supplemental Schedule of Noncash Share-based Compensation		
Changes in prepaid expenses associated with share-based compensation	$-	$49,718

See Notes to Condensed Consolidated Financial Statements.

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 4, 2015 and results of operations and cash flows for the three months ended April 4, 2015 and March 29, 2014. 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 3, 2015 appearing in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission (the "Commission") on March 19, 2015. Operating results for the three months ended April 4, 2015 are not necessarily indicative of the results to be achieved for the full year ending on January 2, 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 3, 2015 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 is a natural products company that discovers, acquires, develops and commercializes proprietary-based ingredient technologies through its business model that utilizes its wholly owned business units, including ingredient technologies, catalog of natural product fine chemicals, chemistry and analytical testing services, and product regulatory and safety consulting services. The Company provides science-based solutions to the nutritional supplement, food and beverage, animal health, cosmetic and pharmaceutical industries.

Liquidity: The Company has incurred a loss from operations of approximately $906,000 and a net loss of approximately $1,026,000 for the three-month period ended April 4, 2015. As of April 4, 2015, the cash and cash equivalents totaled approximately $3,216,000.

The Company has approximately $2,500,000 of available credit on its term loan that can be drawn down by July 31, 2015. While we anticipate that our current cash and cash equivalents on hand, cash generated from operations and the available credit on the term loan that can be drawn down will be sufficient to meet our projected operating plans through at least May 15, 2016, 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 occurs due to the Company's floating year-end date. The fiscal year 2014 ended on January 3, 2015 consisted of 53 weeks. The fiscal year 2015 ending on January 2, 2016 will include the normal 52 weeks.

Changes in accounting principle: In April 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2015-03, Interest – Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs. The amendments in this ASU require that debt issuance costs related to a debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs have not changed. For public business entities, the amendments are effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. Early adoption of the amendments is permitted for financial statements that have not been previously issued.

Table of Contents

The Company early adopted the amendments in this ASU effective as of April 4, 2015. As of April 4, 2015 and January 3, 2015, the Company had unamortized debt issuance costs of $80,455 and $91,361, respectively. The Company had previously presented the debt issuance costs as other noncurrent assets in its consolidated balance sheet as of January 3, 2015 in the Company's Annual Report on Form 10-K filed with the Commission on March 19, 2015. The early adoption has resulted in adjustments to the Company's consolidated balance sheet as of January 3, 2015, by reclassifying the debt issuance costs as a direct deduction from the carrying amount of the debt liability. Below are the effects of the change on the consolidated balance sheet as of January 3, 2015.

ChromaDex Corporation and Subsidiaries

Condensed Consolidated Balance Sheet
January 3, 2015

	Previously Reported	Adjustments	As Adjusted
Assets			
Current Assets	$9,898,691	$ -	$9,898,691
Leasehold Improvements and Equipment, net	1,264,660	-	1,264,660
Other Noncurrent Assets	444,857	(91,361)	353,496
Total assets	$11,608,208	$ (91,361)	$11,516,847
Liabilities and Stockholders' Equity			
Current Liabilities	$4,980,820	$ -	$4,980,820
Loan payable, less current maturities, net	2,068,474	(91,361)	1,977,113
Capital lease obligations, less current maturities	423,015	-	423,015
Deferred rent, less current	137,508	-	137,508
Total liabilities	7,609,817	(91,361)	7,518,456
Total stockholders' equity	3,998,391	-	3,998,391
Total liabilities and stockholders' equity	$11,608,208	$ (91,361)	$11,516,847

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 4, 2015 and January 3, 2015 are as follows:

	April 4, 2015	January 3, 2015
Reference standards	$1,718,313	$1,760,305

Bulk ingredients	1,956,383	2,298,036
	3,674,696	4,058,341
Less valuation allowance	443,000	324,000
	$3,231,696	$3,734,341

Table of Contents

Note 4. Loss Per Share Applicable to Common Stockholders

The following table sets forth the computations of loss per share amounts applicable to common stockholders for the three months ended April 4, 2015 and March 29, 2014:

	Three Months Ended	
	April 4, 2015	March 29, 2014
Net loss	$(1,025,515)	$(1,848,016)
Basic and diluted loss per common share	$(0.01)	$(0.02)
Weighted average common shares outstanding (1):	107,198,597	106,076,361
Potentially dilutive securities (2):		
Stock options	14,146,969	13,326,655
Warrants	469,020	-
Convertible Debt	773,395	-

(1) Includes 1,554,088 and 1,542,088 weighted average nonvested shares of restricted stock for the three months ended April 4, 2015 and March 29, 2014, respectively, which are participating securities that feature voting and dividend rights.

(2) Excluded from the computation of loss per share as their impact is antidilutive.

Note 5. Leasehold Improvements and Equipment

Leasehold improvements and equipment consisted of the following:

	April 4, 2015	January 3, 2015
Laboratory equipment	$3,514,733	$3,151,748
Leasehold improvements	495,240	495,240
Computer equipment	333,567	329,737
Furniture and fixtures	13,039	13,039
Office equipment	7,877	7,877
Construction in progress	28,737	68,141
	4,393,193	4,065,782
Less accumulated depreciation	2,813,199	2,801,122
	$1,579,994	$1,264,660

Depreciation expense on leasehold improvements and equipment included in the consolidated statement of operations for the three months ended April 4, 2015 and March 29, 2014 was approximately $67,000 and $51,000, respectively.

Table of Contents

Note 6. Loan Payable

Loan payable as of April 4, 2015 consists of the following:

Principal amount payable for following years ending December	
2015	$223,358
2016	867,247
2017	1,035,995
2018	373,400
Total principal payments	2,500,000
Accrued end of term charge	20,425
Total loan payable	2,520,425
Less unamortized debt issuance costs and debt discount	273,006
Less current portion	452,672
Loan payable – long term	$1,794,747

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 $106,000 for the three months ended April 4, 2015. For the three months ended March 29, 2014, the Company did not have any interest expense related to loan payable as the Company did not have any outstanding balance.

Note 7. Share-Based Compensation

7A. Employee Share-Based Compensation

Stock Option Plans

The fair value of the Company's stock options was estimated at the date of grant using the Black-Scholes option pricing model. The table below outlines the weighted average assumptions for options granted to employees during the three months ended April 4, 2015.

Three Months Ended April 4, 2015	
Expected volatility	75%
Expected dividends	0.00%
Expected term	6.1 years
Risk-free rate	1.68%

The weighted average grant date fair value of options granted during the three months ended April 4, 2015 was $0.85.

Service Period Based Stock Options

The majority of options granted by the Company feature service conditions. Accordingly, these options vest ratably over specified periods of approximately 3 to 5 years following the date of grant.

Table of Contents

The following table summarizes our stock option activity during the three months ended April 4, 2015:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at January 3, 2015	12,723,601	$1.13	7.00	
Options Granted	185,000	1.29	10.00	
Options Classification from Employee to Non-Employee	(451,738)	0.88		
Options Exercised	-	-		
Options Forfeited	(12,083)	1.14		
Outstanding at April 4, 2015	12,444,780	$1.14	6.75	$5,237,000
Exercisable at April 4, 2015	9,608,011	$1.14	6.21	$3,981,000

The aggregate intrinsic values in the table above are based on the Company's closing stock price of $1.55 on the last day of business for the period ended April 4, 2015.

Certain employees who were previously classified as employees under the share-based compensation plan have been reclassified to non-employees during the three months ended April 4, 2015 as they became consultants. There was no impact on accounting as the options were fully vested.

As of April 4, 2015, there was approximately $1,434,000 of total unrecognized compensation expense expected to be recognized over a weighted average period of 2.39 years.

Restricted Stock

Restricted stock awards granted by the Company to employees have vesting conditions that are unique to each award.

The following table summarizes activity of restricted stock awards granted to employees at April 4, 2015 and changes during the three months then ended:

	Shares	Weighted Average Award-Date Fair Value
Unvested shares at January 3, 2015	1,590,000	$1.18
Granted	-	-
Vested	(500,000)	1.41
Forfeited	-	-
Unvested shares at April 4, 2015	1,090,000	$1.08
Expected to Vest as of April 4, 2015	1,090,000	$1.08

Employee Option and Restricted Stock Compensation

The Company recognized compensation expense of approximately $378,000 and $950,000 in general and administrative expenses in the statement of operations for the three months ended April 4, 2015 and March 29, 2014, respectively.

Table of Contents

7B. Non-Employee Share-Based Compensation

Stock Option Plans

The following table summarizes activity of stock options granted to non-employees at April 4, 2015 and changes during the three months then ended:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at January 3, 2015	1,050,451	$1.35	5.46	
Options Granted	-	-		
Options Classification from Employee to Non-Employee	451,738	0.88		
Options Exercised	-	-		
Options Forfeited	-	-		
Outstanding at April 4, 2015	1,502,189	$1.21	6.07	$506,000
Exercisable at April 4, 2015	1,434,689	$1.21	5.91	$485,000

The aggregate intrinsic values in the table above are based on the Company's closing stock price of $1.55 on the last day of business for the period ended April 4, 2015.

As of April 4, 2015, there was approximately $67,000 of total unrecognized compensation expense expected to be recognized over a weighted average period of 1.44 years.

Stock Awards

On January 27, 2015, the Company awarded 350,000 shares of the Company's common stock to non-employees. 210,000 of these shares were fully vested and non-forfeitable and the remaining 140,000 shares can be surrendered and forfeited if the Company delivers termination notices for any reason prior to May 28, 2015. The fair value of the awards for the fully vested 210,000 shares was $180,600, and was measured based on the trading price of the Company's stock on the date of grant. This fair value was expensed immediately on the date of grant. The expense for the remaining forfeitable 140,000 shares are recognized ratably through May 28, 2015. The fair values will be remeasured until the shares are fully vested.

As of April 4, 2015, there was approximately $98,000 of total unrecognized compensation expense related to the stock awards to non-employees. That cost is expected to be recognized over a period of approximately 2 months as of April 4, 2015.

Restricted Stock

Restricted stock awards granted by the Company to non-employees generally feature time vesting service conditions, specified in the respective service agreements. Restricted stock awards issued to non-employees are accounted for at current fair value through the vesting period. The fair value of vested non-employee restricted shares awarded during the three months ended April 4, 2015 was approximately $7,000, which represents the market value of the Company's common stock on respective vesting dates charged to expense.

Table of Contents

The following table summarizes activity of restricted stock awards issued to non-employees at April 4, 2015 and changes during the three months then ended:

	Shares	Weighted Average Fair Value
Unvested shares at January 3, 2015	76,000	$0.90
Granted	-	-
Vested	(6,000)	1.23
Forfeited	-	-
Unvested shares expected to vest at April 4, 2015	70,000	$1.55

As of April 4, 2015, there was approximately $108,000 of total unrecognized compensation expense related to the restricted stock award to a non-employee. That cost is expected to be recognized over a period of 2.9 years as of April 4, 2015.

Non-Employee Option, Stock and Restricted Stock Compensation

The Company recognized share-based compensation expense of approximately $338,000 and $50,000 in general and administrative expenses in the statement of operations for the three months ended April 4, 2015 and March 29, 2014, respectively.

Note 8. 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.

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
General and administrative	-	-	-	2,247,931	2,247,931
Operating expenses	274,624	310,944	209	2,247,931	2,833,708
Operating income (loss)	$802,541	$415,315	$123,991	$(2,247,931)	$(906,084)

Three months ended March 29, 2014	Ingredients segment	Core Standards and Contract Services segment	Scientific and Regulatory Consulting segment	Other	Total
Net sales	$1,136,309	$1,735,883	$201,946	$-	$3,074,138
Cost of sales	718,177	1,193,635	177,318	-	2,089,130
Gross profit	418,132	542,248	24,628	-	985,008
Operating expenses:					
Sales and marketing	239,960	212,775	11,832	-	464,567
General and administrative	-	-	-	2,337,663	2,337,663
Loss from investment in affiliate	-	-	-	21,543	21,543
Operating expenses	239,960	212,775	11,832	2,359,206	2,823,773
Operating income (loss)	$178,172	$329,473	$12,796	$(2,359,206)	$(1,838,765)

At April 4, 2015	Ingredients segment	Core Standards and Contract Services segment	Scientific and Regulatory Consulting segment	Other	Total
Total assets	$3,407,868	$3,620,787	$79,778	$3,876,396	$