

ChromaDex Corp.  
Form 10-Q  
August 17, 2010  
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**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 July 3, 2010**

**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) 429-0288**

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 ☐

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Non-accelerated filer ☐ (Do not check if smaller reporting company)

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 ☒

Number of shares of common stock of the registrant: 60,111,040 outstanding as of August 16, 2010.

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**CHROMADEX CORPORATION**

**2010 QUARTERLY REPORT ON FORM 10-Q**

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**ChromaDex Corporation and Subsidiaries****Consolidated Balance Sheets (Unaudited)****July 3, 2010 and January 2, 2010**

	July 3, 2010	January 2, 2010
<b>Assets</b>		
Current Assets		
Cash	\$ 3,381,744	\$ 471,378
Trade receivables, net	845,610	497,928
Inventories	1,164,657	922,760
Prepaid expenses and other assets	251,527	115,794
<b>Total current assets</b>	<b>5,643,538</b>	<b>2,007,860</b>
Leasehold Improvements and Equipment, net	1,395,917	1,203,431
Deposits and Other Noncurrent Assets		
Deposits	32,227	32,227
Intangible assets, net	315,019	321,490
	347,246	353,717
	<b>\$ 7,386,701</b>	<b>\$ 3,565,008</b>
<b>Liabilities and Stockholders' Equity</b>		
Current Liabilities		
Accounts payable	\$ 786,942	\$ 548,310
Accrued expenses	326,302	270,250
Current maturities of capital lease obligations	73,268	28,430
Due to officers		1,178,206
Customer deposits and other	71,455	126,518
<b>Total current liabilities</b>	<b>1,257,967</b>	<b>2,151,714</b>
Capital lease obligations, less current maturities	238,735	45,868
Deferred rent	312,001	319,973
Stockholders' Equity		
Common stock, \$.001 par value; authorized 150,000,000 shares; issued and outstanding July 3, 2010 60,111,040 shares; January 2, 2010 28,838,216 shares	60,111	28,838
Additional paid-in capital	13,895,200	9,126,141
Accumulated deficit	(8,377,313)	(8,107,526)
	<b>5,577,998</b>	<b>1,047,453</b>

\$ 7,386,701	\$ 3,565,008
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See Notes to Consolidated Financial Statements.

**Table of Contents****ChromaDex Corporation and Subsidiaries****Consolidated Statements of Operations (Unaudited)****For the Three Month Periods ended**

	<b>Three Months Ended</b>	
	<b>July 3, 2010</b>	<b>July 4, 2009</b>
Sales	<b>\$ 2,033,861</b>	<b>\$ 1,342,716</b>
Cost of sales	<b>1,258,172</b>	<b>865,071</b>
<b>Gross profit</b>	<b>775,689</b>	<b>477,645</b>
Operating expenses:		
Sales and marketing	<b>228,351</b>	<b>219,596</b>
General and administrative	<b>840,538</b>	<b>544,964</b>
	<b>1,068,889</b>	<b>764,560</b>
<b>Operating loss</b>	<b>(293,200)</b>	<b>(286,915)</b>
Nonoperating (income) expenses:		
Interest expense	<b>10,726</b>	<b>4,602</b>
Interest income	<b>(397)</b>	<b>(417)</b>
	<b>10,329</b>	<b>4,185</b>
<b>Net loss</b>	<b>\$ (303,529)</b>	<b>\$ (291,100)</b>
Basic and Diluted loss per common share	<b>\$ (0.01)</b>	<b>\$ (0.01)</b>
Basic and Diluted average common shares outstanding	<b>43,623,403</b>	<b>28,838,216</b>

See Notes to Consolidated Financial Statements.

**Table of Contents****ChromaDex Corporation and Subsidiaries****Consolidated Statements of Operations (Unaudited)****For the Six Month Periods ended**

	<b>Six Months Ended</b>	
	<b>July 3, 2010</b>	<b>July 4, 2009</b>
Sales	<b>\$ 3,971,453</b>	<b>\$ 2,789,843</b>
Cost of sales	<b>2,377,791</b>	<b>1,844,125</b>
<b>Gross profit</b>	<b>1,593,662</b>	<b>945,718</b>
Operating expenses:		
Sales and marketing	<b>452,970</b>	<b>441,218</b>
General and administrative	<b>1,394,571</b>	<b>1,111,608</b>
	<b>1,847,541</b>	<b>1,552,826</b>
<b>Operating loss</b>	<b>(253,879)</b>	<b>(607,108)</b>
Nonoperating (income) expenses:		
Interest expense	<b>16,425</b>	<b>9,847</b>
Interest income	<b>(517)</b>	<b>(2,013)</b>
	<b>15,908</b>	<b>7,834</b>
<b>Net loss</b>	<b>\$ (269,787)</b>	<b>\$ (614,942)</b>
Basic and Diluted loss per common share	<b>\$ (0.01)</b>	<b>\$ (0.02)</b>
Basic and Diluted average common shares outstanding	<b>36,230,810</b>	<b>28,838,216</b>

See Notes to Consolidated Financial Statements.

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### ChromaDex Corporation and Subsidiaries

### Statement of Stockholders' Equity (Unaudited)

Six months ended July 3, 2010

	Common Stock		Additional	Accumulated	Total
	Shares	Amount	Paid-in Capital	Deficit	Stockholders' Equity
Balance, January 2, 2010	28,838,216	28,838	9,126,141	(8,107,526)	1,047,453
Share-based compensation			51,599		51,599
Net income				33,742	33,742
Balance, April 3, 2010	28,838,216	28,838	9,177,740	(8,073,784)	1,132,794
Share-based compensation			230,858		230,858
Issuance of common stock, net of offering costs of \$188,372	26,249,983	26,250	3,460,376		3,486,626
Exercise of warrants	5,022,841	5,023	1,026,226		1,031,249
Net loss				(303,529)	(303,529)
<b>Balance, July 3, 2010</b>	<b>60,111,040</b>	<b>60,111</b>	<b>13,895,200</b>	<b>(8,377,313)</b>	<b>5,577,998</b>

See Notes to Consolidated Financial Statements.



**Table of Contents****ChromaDex Corporation and Subsidiaries****Consolidated Statements of Cash Flows (Unaudited)****For the Six Month Periods ended**

	<b>Six Months Ended</b>	
	<b>July 3, 2010</b>	<b>July 4, 2009</b>
<b>Cash Flows from Operating Activities</b>		
Net loss	\$ (269,787)	\$ (614,942)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation	151,920	136,257
Amortization of intangibles	36,471	61,914
Share-based compensation expense	282,457	97,792
Changes in operating assets and liabilities:		
Trade receivables	(347,682)	(69,607)
Inventories	(241,897)	(136,841)
Prepaid expenses and other assets	(135,733)	53,107
Accounts payable	238,632	41,966
Accrued expenses	56,052	(44,279)
Customer deposits and other	(55,063)	29,400
Deferred rent	(7,972)	(12,442)
Due to officers	(1,178,206)	
<b>Net cash (used in) operating activities</b>	<b>(1,470,808)</b>	<b>(457,675)</b>
<b>Cash Flows From Investing Activities</b>		
Purchases of leasehold improvements and equipment	(79,448)	(25,324)
Purchase of intangible assets	(30,000)	
Proceeds from return of purchased equipment		5,000
<b>Net cash (used in) investing activities</b>	<b>(109,448)</b>	<b>(20,324)</b>
<b>Cash Flows From Financing Activities</b>		
Proceeds from issuance of common stock	3,486,626	
Proceeds from exercise of warrants	1,031,249	
Principal payments on capital leases	(27,253)	(40,930)
<b>Net cash provided by (used in) financing activities</b>	<b>4,490,622</b>	<b>(40,930)</b>
<b>Net increase (decrease) in cash</b>	<b>2,910,366</b>	<b>(518,929)</b>
Cash:		
Beginning	471,378	1,125,504
Ending	\$ 3,381,744	\$ 606,575
<b>Supplemental Disclosures of Cash Flow Information</b>		
Cash payments for interest	\$ 16,425	\$ 9,847
<b>Supplemental Schedule of Noncash Investing Activity</b>		
Capital lease obligation incurred for the purchase of equipment	\$ 264,958	\$
See Notes to Consolidated Financial Statements.		



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### **ChromaDex Corporation and Subsidiaries**

#### **Notes to Consolidated Financial Statements (Unaudited)**

##### **Note 1. Interim Financial Statements**

The accompanying financial statements of ChromaDex Corporation and its wholly owned subsidiaries, ChromaDex, Inc. and ChromaDex Analytics, Inc. (the Company) 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 July 3, 2010 and results of operations and cash flows for the three and six months ended July 3, 2010 and July 4, 2009. 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, 2010 appearing in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission (the Commission) on March 31, 2010 and as amended by the Form 10-K/A filed with the Commission on April 30, 2010. Operating results for the six months ended July 3, 2010 are not necessarily indicative of the results to be achieved for the full year ending on January 1, 2011. 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.

##### **Note 2. Nature of Business and Significant Accounting Policies**

**Nature of business:** The Company creates and supplies botanical reference standards along with related phytochemical products and services. The Company's main priority is to create industry-accepted information, and to provide products and services to every layer of the functional food, pharmaceutical, personal care and dietary supplement markets. The Company provides these services at various terms with payment terms of primarily net 30 days.

**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.

**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. Below is a tabulation of the potentially dilutive securities for the periods ended July 3, 2010 and July 4, 2009.

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	Three Months Ending		Six Months Ending	
	July 3, 2010	July 4, 2009	July 3, 2010	July 4, 2009
Basic average common shares outstanding	43,623,403	28,838,216	36,230,810	28,838,216
Warrants and options in the money, net	18,967,838		17,250,610	
Weighted average common shares outstanding assuming dilution	62,591,241	28,838,216	53,481,420	28,838,216

### Note 3. Leasehold Improvements and Equipment

Leasehold improvements and equipment consisted of the following:

	July 3, 2010	January 2, 2010
Laboratory equipment	\$ 2,384,248	\$ 2,063,860
Leasehold improvements	340,990	332,702
Computer equipment	213,322	208,499
Furniture and fixtures	15,308	15,308
Office equipment	3,445	3,445
Construction in progress	96,938	86,031
	3,054,251	2,709,845
Less accumulated depreciation	1,658,334	1,506,414
	\$ 1,395,917	\$ 1,203,431

### Note 4. Stock Issuance

On April 22, 2010, the Company entered into a subscription agreement (the "Subscription Agreement") with certain investors (the "Subscribers"). Under the terms of the Subscription Agreement, the Company has issued and sold to the Subscribers, in a private placement transaction (the "Private Placement"), an aggregate of 26,249,983 newly issued shares (the "Private Placement Shares") of the Company's common stock for an aggregate purchase price of \$3,674,998 or \$0.14 per share. During the three months ended July 3, 2010, the Company received net capital contributions of \$3,486,626 through this offering. The Company has also issued to each Subscriber an immediately exercisable warrant (collectively, the "Warrants") to purchase the Company's common stock in an amount equal to the number of Private Placement Shares purchased by such Subscriber at an exercise price of \$0.21 per share. As of July 3, 2010, 4,910,711 of these Warrants have been exercised and the Company received additional proceeds of \$1,031,249 from exercise of these Warrants. More information regarding this Subscription Agreement is set forth in a Current Report on Form 8-K filed with the Commission on April 26, 2010.

Additionally, during the three months ended July 3, 2010, the Company issued 112,130 shares of common stock to Brookville Capital Partners for exercise of their warrants. Brookville Capital Partners, formerly known as New Castle Financial Services, elected a cashless exercise pursuant to the provisions of the warrants and received 112,130 shares of common stock for \$0 in cash payment in lieu of 336,390 shares with a cash payment of \$1.36 per share. These warrants were issued during the year ended January 3, 2009 as part of New Castle's services as a placement agent in conjunction with the private placement concluded during the year ended January 3, 2009.

**Table of Contents****Note 5. Share-based Compensation and Warrants**

**Stock option plan:** At the discretion of management 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. Management and the Board of Directors determine the exercise price, vesting periods and expiration dates at the time of grant. Expiration dates are not to exceed 10 years. The Company, under its Second Amended and Restated 2007 option plan, is authorized to issue stock options that total no more than 20% of the shares of common stock of the Company issued and outstanding as determined on a fully diluted basis. Beginning in 2007, options were no longer issuable under the 2000 option plan. The remaining amount available for issuance under the Second Amended and Restated 2007 option plan totaled 4,597,898 at July 3, 2010. The option awards generally vest ratably over a four-year period following grant date after a passage of time.

The Company recognized share-based compensation expense of \$230,858 and \$282,457 in general and administrative expenses in the statement of operations for the three and six months ended July 3, 2010, respectively. The Company recognized \$50,830 and \$97,792 in share-based compensation expense for the comparable periods in 2009.

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 during the six months ended July 3, 2010.

<b>Six Months Ended July 3, 2010</b>	<b>2010</b>
Volatility	32.06%
Expected dividends	0.00%
Expected term	5.0 years
Risk-free rate	1.99%

The Company calculated expected volatility from the volatility of publicly held companies in similar industries, as the Company's 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 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 simplified method for estimating the expected term of the options. 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 following table summarizes options activity for the six months ended July 3, 2010.

	<b>Number of Shares</b>	<b>Exercise Price</b>	<b>Weighted Average Remaining Contractual Term</b>	<b>Aggregate Intrinsic Value</b>
Outstanding at January 2, 2010	4,140,426	\$ 1.25		
Options Granted	9,018,546	1.60		
Options Exercised				
Options Forfeited	(52,342)	1.07		
Outstanding at July 3, 2010	13,106,630	\$ 1.49	7.83	\$ 1,030,350
Exercisable at July 3, 2010	2,341,944	\$ 1.22	6.41	\$ 656,650

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### **Note 5. Share-based Compensation and Warrants (continued)**

The aggregate intrinsic values in the table above are before income taxes, based on the Company's closing stock price of \$1.50 on the last day of business for the period ended July 3, 2010.

As of July 3, 2010, there was \$3,924,623 of total unrecognized compensation expense related to nonvested share based compensation arrangements granted under the plans. The majority of the expense is related to the options issued pursuant to the Private Placement. That cost is expected to be recognized over a weighted average period of 2.54 years as of July 3, 2010. The weighted average fair value of options granted during the six months ended July 3, 2010, was \$.43. The realized tax benefit from stock options for the six months ended July 3, 2010 was \$0, based on the Company's election of the with and without approach. The fair value of the options that vested during the six months ended July 3, 2010 was approximately \$108,138.

**Warrants:** On May 20, 2010, the Company issued immediately exercisable Warrants to certain investors pursuant to the Subscription Agreement entered into by the Company on April 22, 2010. The company issued an aggregate of 26,249,983 Warrants to investors to purchase the Company common stock at \$0.21 per share. The fair value of these Warrants was estimated, at the date of grant, using the Black-Scholes based option valuation model. The Warrants were valued at \$31,282,105. As of July 3, 2010, 4,910,711 of these Warrants have been exercised and the Company received proceeds of \$1,031,249 from exercise of these Warrants.

The table below outlines the assumptions for Warrants granted on May 20, 2010.

<b>Summary of Significant Assumptions</b>	<b>May 20, 2010</b>
Expected Term	1.50
Expected Volatility	35.45%
Expected Dividends	0.00%
Risk Free Rate of Return	0.55%

On May 10, 2010, Brookville Capital Partners, formerly known as New Castle Financial Services, exercised outstanding warrants and the Company issued 112,130 shares of common stock. Brookville Capital Partners elected a cashless exercise pursuant to the provisions of the warrants and received 112,130 shares of common stock for \$0 in cash payment in lieu of 336,390 shares with a cash payment of \$1.36 per share. These warrants were issued during the year ended January 3, 2009 as part of New Castle's services as a placement agent in conjunction with the private placement concluded during the year ended January 3, 2009.

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At July 3, 2010, the following warrants were outstanding and exercisable:

<b>Warrants granted</b>	<b>Weighted Average Exercise Prices</b>	<b>Number Outstanding And Exercisable At July 3, 2010</b>	<b>Weighted Average Remaining Expected Life</b>
<b>in connection with:</b>			
2008 Private Placement Equity Offering	\$ 3.00	1,718,350	2.80
2010 Private Placement Equity Offering	\$ 0.21	21,339,272	1.38
	\$ 0.42	23,057,622	1.49

**Note 6. Management's Plans for Continuing Operations**

The Company has incurred a net loss of \$269,787 for the six month period ended July 3, 2010, and a net loss of \$614,942 for the six month period ended July 4, 2009. The decrease in loss for the six month period year-over-year is due to an increase in sales coupled with a decrease in labor and a decrease in overhead costs as a percentage of sales. The Company expects that as sales continue to grow, labor and overhead costs as a percentage of sales will continue to decrease as future growth in Net Sales will likely require lower direct labor and variable overhead costs. Management's anticipation of future growth is largely related to the Food and Drug Administration's (FDA's) guideline releases in the dietary supplement industry and the market's trend towards green chemistry in the food and cosmetic sector. The Company has implemented a comprehensive marketing plan design targeted on leveraging its capabilities concurrent with the FDA's guideline releases. The Company has also expanded its marketing plan to target the pharmaceutical and cosmetic sectors to support the reference standards, analytical services and discovery libraries product lines. In addition, the Company's new line of bulk raw food grade material is expected to contribute to the Net Sales growth, but at a lower gross margin.

On April 22, 2010, the Company entered into the Subscription Agreement with the Subscribers. Under the terms of the Subscription Agreement, the Company has issued and sold to the Subscribers an aggregate of 26,249,983 newly issued shares of the Company's common stock for an aggregate purchase price of \$3,674,998 or \$0.14 per share. During the three months ended July 3, 2010, the Company received net capital contributions of \$3,486,626 through this offering. The Company has also issued to each Subscriber immediately exercisable Warrants to purchase the Company's common stock in an amount equal to the number of Private Placement Shares purchased by such Subscriber at an exercise price of \$0.21 per share. As of July 3, 2010, 4,910,711 of these Warrants have been exercised and the Company received additional proceeds of \$1,031,249 from exercise of these Warrants. Assuming the full exercise of the outstanding Warrants for cash, the Company would receive additional proceeds of \$4,481,247, for an aggregate of \$8,999,122 in net proceeds from the purchase of the Private Placement Shares and the exercise of the Warrants. There is no guarantee that the Subscribers will exercise any of the outstanding Warrants for cash and that the Company will receive any proceeds from any of the outstanding Warrants until they are exercised for cash. The Company believes that this capital raise and anticipated proceeds from exercise of outstanding Warrants will be sufficient to implement its current business plan through December, 2011. However, if the Company determines that it needs additional financing to further enable its long-term strategic objectives, there can be no assurance that it will be available on terms favorable to it or at all. If adequate financing is not available, the Company may have to delay, postpone or terminate product and service expansion and curtail general and administrative operations in order to maintain sufficient operating capital after December, 2011. The inability to raise additional financing may have a material adverse effect on the future performance of the Company.

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

*This Quarterly Report on Form 10-Q (the "Form 10-Q") contains forward-looking statements, as defined in Section 21E of the Securities Exchange Act of 1934, as amended. These statements reflect the Company's current expectations of the future results of its operations, performance and achievements. Forward-looking statements are covered under the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. The Company has tried, wherever possible, to identify these statements by using words such as "anticipates," "believes," "estimates," "expects," "plans," "intends" and similar expressions. These statements reflect management's current beliefs and are based on information now available to it. Accordingly, these statements are subject to certain risks, uncertainties and contingencies that could cause the Company's actual results, performance or achievements in 2010 and beyond to differ materially from those expressed in, or implied by, such statements. Such statements, include, but are not limited to, statements contained in this Form 10-Q relating to our business, financial performance, business strategy, recently announced transactions and capital outlook. Important factors that could cause actual results to differ materially from those in the forward looking statements include, a continued decline in general economic conditions nationally and internationally; decreased demand for our products and services; market acceptance of our products; the ability to protect our intellectual property rights; impact of any litigation or infringement actions brought against us; competition from other providers and products; risks in product development; inability to raise capital to fund continuing operations; changes in government regulation, the ability to complete customer transactions and capital raising transactions, and other factors (including the risks contained in the section of this report entitled "Risk Factors") relating to our industry, our operations and results of operations and any businesses that may be acquired by us. Should one or more of these risks or uncertainties materialize, or should the underlying assumptions prove incorrect, actual results may differ significantly from those anticipated, believed, estimated, expected, intended or planned. Additional risks, uncertainties, factors and other risks are set forth under Part II, Item 1A "Risk Factors" of this report, Item 1A "Risk Factors" in the Company's Annual Report on Form 10-K filed with the Commission on March 31, 2010, as amended by the Form 10-K Amendment filed with the Commission on April 30, 2010, and in future reports the Company files with the Commission. Readers of this Form 10-Q should not place undue reliance on any forward-looking statements. Except as required by federal securities laws, the Company undertakes no obligation to update or revise these forward-looking statements to reflect new events or uncertainties.*

*You should read the following discussion and analysis of the financial condition and results of operations of ChromaDex together with the financial statements and the related notes presented in Item 1 of this report.*



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### **Overview**

ChromaDex Corporation and its subsidiaries (collectively, "ChromaDex," or the "Company") supplies phytochemical reference standards and reference materials, related contract services, and products for the dietary supplement, nutraceutical, food and beverage, functional food, pharmaceutical and cosmetic markets. Our business strategy is to identify, acquire, reduce-to-practice, and commercialize innovative new natural products and "green chemistry" (environmentally safe) technologies, with an initial industry focus on the dietary supplement, cosmetic, food and beverage markets, as well as novel pharmaceuticals. We plan to utilize our experienced management team to commercialize these natural product technologies by advancing them through the proper regulatory approval processes, arranging for reliable and cost-effective manufacturing, and ultimately either selling or licensing the product lines to third parties and customers.

The discussion and analysis of our financial condition and results of operations are based on the Company's financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles. The preparation of these financial statements requires making 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.

We believe that our current cash, cash equivalents and cash generated from operations, the capital raised pursuant to the Subscription Agreement entered into by the Company on April 22, 2010, and the anticipated additional proceeds from exercise of outstanding Warrants issued pursuant to this Subscription Agreement (see Liquidity and Capital Resources in Item 2 of this Form 10-Q) will be sufficient to meet our projected operating plans through December, 2011. We may, however, seek additional capital prior to the end of December, 2011 both to meet our projected operating plans after December, 2011 and to fund our longer term strategic objectives. To the extent we are unable to raise additional cash or generate sufficient net income prior to December, 2011 to meet our projected operating plans, we will revise our projected operating plans accordingly. Additional capital may come from public and 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. Furthermore, 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 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 a collaboration we may be unable to fulfill our customer's 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.

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The FDA has started to regulate the dietary supplement market under the new Good Manufacturing Practices ( GMPs ). As of June, 2010, all manufacturers regardless of their sizes are held accountable under these new regulations. At this time, it is unknown to what extent the FDA will enforce the regulations and how they will be interpreted upon enforcement. These uncertainties may have a material adverse effect on the results of operations for ChromaDex as lack of enforcement or an interpretation of the regulations that lessens the burden of compliance for the dietary supplement marketplace may cause a reduced demand for ChromaDex's products and services.

Over the next twelve months, we plan to continue to expand our service capacity through hiring and to implement accreditation and certification programs related to quality initiatives. In addition, we plan to expand our chemical library program and to either establish a GMP compliant pilot plant to support small to medium scale production of target compounds or partner through a collaboration with a company that has these capabilities. We also intend to increase the research and development of our new bulk food grade raw material line as well as increase marketing and sales related to these products.

## **Results of Operations**

ChromaDex generated net sales of \$3,971,453 for the six month period ended July 3, 2010 as compared to \$2,789,843 for the six month period ended July 4, 2009. ChromaDex incurred a net loss of \$269,787 for the six month period ended July 3, 2010 and incurred a net loss of \$614,942 for the six month period ended July 4, 2009. This equated to a \$0.01 loss per basic and diluted share for the six month period ended July 3, 2010 versus a \$0.02 loss per basic and diluted share for the six month period ended July 4, 2009. For the three month period ended July 3, 2010, ChromaDex generated net sales of \$2,033,861 and a net loss of \$303,529 as compared to net sales of \$1,342,716 and a net loss of \$291,100 for the three month period ended July 4, 2009. This was a \$0.01 loss per basic and diluted share for the three month period ended July 3, 2010 versus a \$0.01 loss per basic and diluted share for the three month period ended July 4, 2009.

## **Net Sales**

**Net Sales consist of Gross sales less returns and discounts.** Net sales increased by 51% to \$2,033,861 for the three month period ended July 3, 2010 as compared to \$1,342,716 for the three month period ended July 4, 2009. For the six month period ended July 3, 2010, net sales increased by 42% to \$3,971,453 as compared to \$2,789,843 for the six month period ended July 4, 2009. This increase in net sales in both the three and six month periods was due to our increased sales of bulk food grade raw materials, and increased demand for our existing products and services.

## **Costs of Sales**

**Costs of Sales include raw materials, labor, overhead, and delivery costs.** Cost of sales for the three and six month periods ended July 3, 2010 were \$1,258,172 and \$2,377,791 versus \$865,071 and \$1,844,125 for the three and six month periods ended July 4, 2009, respectively. As a percentage of net sales, this represented a 2% decrease for the three month

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period ended July 3, 2010 compared to the three month period ended July 4, 2009, and a 6% decrease for the six month period ended July 3, 2010 compared to the six month period ended July 4, 2009. This percentage decrease in cost of sales is a result of fixed labor and overhead costs that make up the majority of our expenses. These fixed expenses did not increase in proportion to sales as we were able to achieve growth in sales without an increase of certain labor and overhead costs. However, during the six month period ended July 3, 2010, sales of high volume products, primarily consisting of bulk food grade materials for dietary supplements and foods increased. These high volume products have significantly higher raw material costs associated with them. The Company expects to see a significant increase in the sales of these high volume products throughout 2010. Increases in sales of these types of products will likely cause the Company to experience lower gross margins as a percentage of sales during this time period.

### **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.** Our gross profit increased 62% to \$775,689 for the three month period ended July 3, 2010 from \$477,645 for the three month period ended July 4, 2009, and increased 69% to \$1,593,662 for the six month period ended July 3, 2010 from \$945,718 for the six month period ended July 4, 2009. The increase in sales coupled with a decrease in labor and overhead costs as a percentage of sales contributed to this increase in gross profit. The Company expects that as sales continue to grow, labor and overhead costs as a percentage of sales will continue to decrease as future growth in Net Sales will likely require lower direct labor and variable overhead costs. Raw materials costs as a percentage of sales are expected to increase as sales of the high volume bulk food grade materials continue to grow.

### **Operating Expenses-Sales and Marketing**

**Sales and Marketing Expenses consist of salaries, commissions to employees and advertising and marketing expenses.** Sales and marketing expenses for the three and six month periods ended July 3, 2010 were \$228,351 and \$452,970 as compared to \$219,596 and \$441,218 for the three and six month periods ended July 4, 2009. This slight increase was due to our increased marketing efforts across different customer sectors, such as academic institutions, contract research organizations, sports nutrition, legal consultants and government agencies.

### **Operating Expenses-General and Administrative**

**General and Administrative Expenses consist of research and development, general company administration, IT, accounting and executive management compensation.** General and administrative expenses for the three and six month periods ended July 3, 2010 were \$840,538 and \$1,394,571 as compared to \$544,964 and \$1,111,608 for the three and six month periods ended July 4, 2009. One of the factors that contributed to this increase was an increase in share-based compensation expenses. Our share-based compensation expense increased 354% to \$230,858 for the three month period ended July 3, 2010 from \$50,830 for the three month period ended July 4, 2009, and increased 189% to \$282,457 for the six month period ended July 3, 2010 from \$97,792 for the six month period ended July 4, 2009. This large increase in share-based compensation expense was largely due to the Post-Closing Grants which were granted following consummation of the transactions contemplated by the Subscription Agreement. The Company will continue to incur significant share-based compensation expenses over the next three years,

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as the expenses for these Post-Closing Grants are recognized on the straight-line method over the expected vesting periods. Another factor that contributed to this increase in general and administrative expenses was the initiation of investor relations activities. During the three months ended July 3, 2010, the Company adopted a formal investor relations program for the purpose of increasing market and shareholder awareness.

### **Non-operating Expenses Interest Expense**

**Interest expense consists of interest on capital leases.** Interest expense for the three and six month periods ended July 3, 2010 were \$10,726 and \$16,425 compared to \$4,602 and \$9,847 for the three and six month periods ended July 4, 2009. This increase was due to a new capital lease obligation incurred for the purchase of equipment during the six month period ended July 3, 2010.

### **Non-operating Expenses Interest Income**

**Interest income consists of interest earned on money market accounts.** Interest income for the three and six month periods ended July 3, 2010 were \$397 and \$517 as compared to \$417 and \$2,013 for the three and six month periods ended July 4, 2009.

### **Depreciation and Amortization**

For the six month period ended July 3, 2010, we recorded approximately \$151,920 in depreciation. We depreciate our assets on a straight-line basis, based on the estimated useful lives of the respective assets. We amortize intangible assets using a straight-line method over 10 years. In the six month period ended July 3, 2010, we recorded an amortization for intangible assets of approximately \$36,471.

### **Liquidity and Capital Resources**

Since inception and through July 3, 2010, we have incurred aggregate losses of approximately \$8.4 million. These losses are primarily due to overhead costs and general and administrative expenses associated with the development and expansion of our operations. These operations have been financed through capital contributions and the issuance of common stock.

The 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 sales and administration 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, and there can be no assurance that it will be available on terms favorable to us or at all. If adequate financing is not available, we may have to delay, postpone or terminate product and service expansion and curtail general and administrative operations in order to maintain sufficient operating capital. The inability to raise additional financing may have a material adverse effect on us. We may seek additional capital prior to December, 2011 both to meet our projected operating plans after December, 2011 and to fund our longer term strategic objectives. To the extent we are unable to raise additional cash or generate net income prior to December, 2011 to meet our projected operating plans, we will revise our projected operating plans accordingly.

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On April 22, 2010, we entered into the Subscription Agreement with the Subscribers. We closed on the transactions contemplated by the Subscription Agreement on May 20, 2010 and issued and sold to the Subscribers, in a Private Placement, an aggregate of 26,249,983 newly issued shares (the "Private Placement Shares") of our common stock for an aggregate purchase price of \$3,674,998 or \$0.14 per share. During the six months ended July 3, 2010, we received net capital contributions of \$3,486,626 through this offering. We have also issued to each Subscriber an immediately exercisable Warrant to purchase our common stock equal to the number of Private Placement Shares purchased by such Subscriber at an exercise price of \$0.21 per share. As of July 3, 2010, 4,910,711 of these Warrants have been exercised and we received additional proceeds of \$1,031,249 from exercise of these Warrants. Assuming the full exercise of the outstanding Warrants for cash, we would receive additional proceeds of \$4,481,247, for an aggregate of \$8,999,122 in net proceeds from the purchase of the Private Placement Shares and the exercise of the Warrants. There is no guarantee that the Subscribers will exercise any of the outstanding Warrants for cash and that we will receive any proceeds from any of the outstanding Warrants until they are exercised for cash.

### **Net cash used in operating activities**

Net cash used in operating activities for the six months ended July 3, 2010 was \$1,471,000 compared to \$458,000 used in operating activities for the six months ended July 4, 2009. The increase in net cash used in operating activities largely reflects the payment of unpaid compensation from prior years for two officers.

We expect that our operating cash flows may 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 \$109,000 for the six months ended July 3, 2010, compared to \$20,000 for the six months ended July 4, 2009. The increase in cash used in investing activities mainly reflects the timing of purchases of leasehold improvements and equipment as well as purchases of intangible assets.

### **Net cash provided by (used in) financing activities**

Net cash provided by financing activities was \$4,491,000 for the six months ended July 3, 2010, compared to \$41,000 used in financing activities for the six months ended July 4, 2009. Net cash provided by financing activities for the six months ended July 3, 2010 mainly consisted of net proceeds from the Private Placement.

### **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.

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### **Off-Balance Sheet Arrangements**

During the six months ended July 3, 2010, we had no 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 filed with the Commission on March 31, 2010 as amended by the Form 10-K/A filed with the Commission on April 30, 2010.

### **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Not applicable.

### **ITEM 4. CONTROLS AND PROCEDURES**

#### **Evaluation of Disclosure Controls and Procedures**

The Company's Chief Executive Officer and Chief Financial Officer carried out an evaluation of the effectiveness of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) promulgated by the Securities and Exchange Commission pursuant to the Securities Exchange Act of 1934) Based on the Company's evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of July 3, 2010.

#### **Changes in Internal Controls**

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

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**PART II OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

None.

**ITEM 1A. RISK FACTORS**

The Company's Annual Report on Form 10-K filed with the Commission on March 31, 2010, as amended on Form 10-K/A filed with the Commission on April 30, 2010, (the "2009 Form 10-K") includes detailed disclosure about the risks faced by the Company's business. Such risks have not materially changed since January 2, 2010, except as described below. Events or circumstances arising from one or more of these risks, together with the risks we identify in our 2009 Form 10-K, could adversely affect our business, financial condition, operating results and prospects and the value and price of our common stock could decline. The risks identified below and in our 2009 Form 10-K are not intended to be a comprehensive list of all risks we face and additional risks that we may currently view as not material may also impair our business operations and results.

*We have a history of operating losses and we will need additional financing to meet our future long term capital requirements.*

We have a history of losses and may continue to incur operating and net losses for the foreseeable future. We incurred a net loss of \$270,000 for the six-month period ended July 3, 2010 and a net loss of approximately \$908,000 for the twelve-month period ended January 2, 2010. As of July 3, 2010, our accumulated deficit was \$8.4 million. We have not achieved profitability on an annual basis. We may not be able to reach a level of revenue to achieve profitability. If our revenues grow slower than anticipated, or if operating expenses exceed expectations, then we may not be able to achieve profitability in the near future or at all, which may depress our stock price.

We believe that our current cash, cash equivalents, cash generated from operations, the capital raised pursuant to the Subscription Agreement entered into by the Company on April 22, 2010, and the anticipated additional proceeds from exercise of outstanding warrants issued pursuant to this Subscription Agreement will be sufficient to meet our projected operating plans through December 2011. We may, however, require additional funds, either through additional equity or debt financings or collaborative agreements or from other sources to engage in research and development activities with respect to our potential new product candidates and to establish the personnel necessary to successfully implement our business strategy. 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. In the event we are unable to obtain additional financing, we may be unable to implement our business plan. Even with such financing, we have a history of operating losses and there can be no assurance that we will ever become profitable.

*Stockholders may experience significant dilution if future equity offerings are used to fund operations or acquire complementary businesses.*

The terms of the Subscription Agreement dated April 22, 2010 involved the issuance of a substantial number of shares of the Company's common stock and warrants to purchase common stock. The previously existing stockholders' ownership interests in the Company have been reduced, and if the remaining outstanding warrants to exercise common stock that we issued pursuant to the Subscription Agreement are exercised in accordance with their terms, the existing stockholders' ownership interest in the Company will be reduced even further. As a result of the sale of such a large number of shares of our common stock and securities convertible into common stock, the market price of our common stock could decline.

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*We have a significant number of outstanding warrants and options, and future sales of these shares could adversely affect the market price of our common stock.*

As of July 3, 2010, we had outstanding warrants and options exercisable for an aggregate of 36,164,252 shares of common stock at a weighted average exercise price of \$0.81 per share. In connection with the Subscription Agreement, an aggregate of 24,951,932 of these shares will be registered within 90 days of the closing of the private placement and among these 14,187,246 shares are vested and immediately exercisable as of July 3, 2010. These registered and vested warrants and options will be freely tradable by the exercising party upon issuance. Outstanding warrants exercisable for 11,212,320 shares of common stock will remain to be registered at a future date. The holders may sell these shares in the public markets from time to time, without limitations on the timing, amount or method of sale. As our stock price rises, more outstanding warrants and options will be in-the-money and the holders may exercise their warrants and options and sell a large number of shares. This could cause the market price of our common stock to decline.

*A large number of shares may be sold in the market in connection with the Subscription Agreement, which may depress the market price of our common stock.*

A large number of shares may be sold in the market following the closing of the private placement, which may depress the market price of our common stock. Sales of a substantial number of shares of our common stock in the public market could cause the market price of our common stock to decline. If there are more shares of common stock offered for sale than buyers are willing to purchase, then the market price of our common stock may decline to a market price at which buyers are willing to purchase the offered shares.

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

On May 20, 2010, the Company concluded the Private Placement and received net capital contributions of \$3,486,626 in exchange for issuing 26,249,983 shares of the Company's common stock at \$0.14 per share. The Company also issued to each investor immediately exercisable Warrants to purchase the Company's common stock equal to the number of shares purchased at an exercise price of \$0.21 per share. As of July 3, 2010, 4,910,711 of these Warrants have been exercised and the Company received additional proceeds of \$1,031,249 from exercise of these Warrants. The Company plans to use the proceeds to meet our projected operating plans and to fund our longer term strategic objectives.

The Private Placement Shares and the Warrants were issued and sold by the Company in reliance upon the exemption from securities registration afforded by Section 4(2) of the Securities Act and Rule 506 of Regulation D as promulgated by the SEC under the Securities Act.

Additionally, during the three months ended July 3, 2010, the Company issued 112,130 shares of common stock to Brookville Capital Partners for exercise of their warrants. Brookville Capital Partners, formerly known as New Castle Financial Services, elected a cashless exercise pursuant to the provisions of the warrants and received 112,130 shares of common stock for \$0 in cash payment in lieu of 336,390 shares with a cash payment of \$1.36 per share. These warrants were issued during the year ended January 3, 2009 as part of New Castle's services as a placement agent in conjunction with the private placement concluded during the year ended January 3, 2009.



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These warrants and the underlying shares were issued and sold by the Company in reliance upon the exemption from securities registration afforded by Section 4(2) of the Securities Act and Rule 506 of Regulation D as promulgated by the SEC under the Securities Act.

**ITEM 3.    DEFAULTS UPON SENIOR SECURITIES**

None.

**ITEM 4.    [REMOVED AND RESERVED]**

**ITEM 5.    OTHER INFORMATION**

None.

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**ITEM 6. EXHIBITS**

<b>Exhibit No.</b>	<b>Description of Exhibits</b>
3.1	Amended and Restated Certificate of Incorporation of ChromaDex Corporation, a Delaware corporation (incorporated by reference from, and filed as Appendix A to the Company's Definitive Proxy Statement on Schedule 14A filed with the Commission on May 4, 2010).
4.1	Form of Warrant under the Subscription Agreement, dated as of April 22, 2010 (incorporated by reference from, and filed as Exhibit 10.2 to the Company's Current Report on Form 8-K filed with the Commission on April 26, 2010)
10.1	Amended and Restated Employment Agreement dated April 19, 2010, by and between Frank L. Jaksch, Jr. and ChromaDex, Inc. (incorporated by reference from, and filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Commission on April 22, 2010)
10.2	Amended and Restated Employment Agreement dated April 19, 2010, by and between Thomas C. Varvaro and ChromaDex, Inc. (incorporated by reference from, and filed as Exhibit 10.2 to the Company's Current Report on Form 8-K filed with the Commission on April 22, 2010)
10.3	Subscription Agreement, dated April 22, 2010, between ChromaDex Corporation and Subscribers (incorporated by reference from, and filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Commission on April 26, 2010)
10.4	ChromaDex Corporation Second Amended and Restated 2007 Equity Incentive Plan effective March 13, 2007, as amended on May 20, 2010 (incorporated by reference from, and filed as Appendix B to the Company's Definitive Proxy Statement on Schedule 14A filed with the Commission on May 4, 2010).
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
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)

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**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.

(Registrant)

/s/ THOMAS C. VARVARO

Thomas C. Varvaro

Duly Authorized Officer and Chief Financial Officer

Date: August 17, 2010