ChromaDex Corp.
Form 10-Q
August 10, 2017

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 1, 2017

Commission File Number: 001-37752

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

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, smaller reporting company or emerging growth company. See definition of “large accelerated filer, accelerated filer, smaller reporting company and emerging growth company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ____	Accelerated filer X
Non-accelerated filer ____	Smaller reporting company ____
(Do not check if smaller reporting company)	Emerging growth company ____

If an emerging growth company, indicate by checkmark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

Yes ___ No X

As of August 9, 2017 there were 46,093,894 shares of the registrant's common stock issued and outstanding.

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CHROMADEX CORPORATION

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

July 1, 2017 and December 31, 2016

	July 1, 2017	December 31, 2016
Assets		
Current Assets		
Cash	$14,138,607	$1,642,429
Trade receivables, net of allowances of $736,000 and $1,081,000, respectively	4,579,253	5,852,030
Inventories	7,794,182	7,912,630
Prepaid expenses and other assets	864,935	329,854
Total current assets	27,376,977	15,736,943
Leasehold Improvements and Equipment, net	3,372,879	3,111,374
Deposits	402,497	397,207
Intangible assets, net	1,767,811	486,226
Longterm investment	-	20,318
Total assets	$32,920,164	$19,752,068
Liabilities and Stockholders' Equity		
Current Liabilities		
Accounts payable	$3,131,759	$5,978,288

Accrued expenses	2,111,205	2,170,172
Current maturities of capital lease obligations	299,103	255,461
Customer deposits and other	503,850	389,010
Deferred rent, current	114,101	76,219
Due to officer	100,000	-
Total current liabilities	6,260,018	8,869,150
Capital lease obligations, less current maturities	393,184	343,589
Deferred rent, less current	547,539	564,971
Total liabilities	7,200,741	9,777,710
Commitments and contingencies		
Stockholders' Equity		
Common stock, $.001 par value; authorized 150,000,000 shares; issued and outstanding July 1, 2017 45,571,891 shares and December 31, 2016 37,544,531 shares	45,572	37,545
Additional paid-in capital	75,590,304	55,160,387
Accumulated deficit	(49,916,453)	(45,223,574)
Total stockholders' equity	25,719,423	9,974,358
Total liabilities and stockholders' equity	$32,920,164	$19,752,068

See Notes to Consolidated Financial Statements.

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ChromaDex Corporation and Subsidiaries

Condensed Consolidated Statements of Operations

For the Three Month Periods Ended July 1, 2017 and July 2, 2016

	July 1, 2017	July 2, 2016
Sales, net	$5,306,855	$8,829,579
Cost of sales	3,044,086	4,702,132
Gross profit	2,262,769	4,127,447
Operating expenses:		
Sales and marketing	728,299	698,031
Research and development	849,962	751,726
General and administrative	2,657,573	2,306,559
Other	745,773	-
Operating expenses	4,981,607	3,756,316
Operating income (loss)	(2,718,838)	371,131
Nonoperating expense:		
Interest expense, net	(45,286)	(144,786)
Loss on debt extinguishment	-	(313,099)
Nonoperating expenses	(45,286)	(457,885)
Loss before taxes	(2,764,124)	(86,754)
Provision for taxes	-	4,087
Net loss	$(2,764,124)	$(82,667)
Basic and diluted loss per common share	$(0.07)	$(0.00)
Basic and diluted weighted average common shares outstanding	42,121,150	36,990,032

See Notes to Consolidated Financial Statements.

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ChromaDex Corporation and Subsidiaries

Condensed Consolidated Statements of Operations

For the Six Month Periods Ended July 1, 2017 and July 2, 2016

	July 1, 2017	July 2, 2016
Sales, net	$9,755,977	$16,161,524
Cost of sales	5,740,555	8,582,658
Gross profit	4,015,422	7,578,866
Operating expenses:		
Sales and marketing	1,324,461	1,242,753
Research and development	1,514,152	1,215,798
General and administrative	5,040,719	4,295,118
Other	745,773	-
Operating expenses	8,625,105	6,753,669
Operating income (loss)	(4,609,683)	825,197
Nonoperating expense:		
Interest expense, net	(83,196)	(332,487)
Loss on debt extinguishment	-	(313,099)
Nonoperating expenses	(83,196)	(645,586)
Income (loss) before income taxes	(4,692,879)	179,611
Provision for taxes	-	(6,653)
Net income (loss)	$(4,692,879)	$172,958
Basic earnings (loss) per common share	$(0.12)	$0.00
Diluted earnings (loss) per common share	$(0.12)	$0.00

Basic weighted average common shares outstanding	40,075,920	36,702,037
Diluted weighted average common shares outstanding	40,075,920	37,470,066

See Notes to Consolidated Financial Statements.

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ChromaDex Corporation and Subsidiaries

Condensed Consolidated Statement of Stockholders' Equity

For the Six Month Period Ended July 1, 2017

	Common Stock		Additional	Accumulated	Total Stockholders'
	Shares	Amount	Paid-in Capital	Deficit	Equity
Balance, January 1, 2017	37,544,531	$37,545	$55,160,387	$(45,223,574)	9,974,358
Issuance of common stock associated with the acquisition of Healthspan Research LLC	367,648	367	999,635	-	1,000,002
Exercise of stock options	3,202	3	6,620	-	6,623
Vested restricted stock	2,667	3	(3)	-	-
Share-based compensation	-	-	319,830	-	319,830
Net loss	-	-	-	(1,928,755)	(1,928,755)
Balance, April 1, 2017	37,918,048	$37,918	$56,486,469	$(47,152,329)	$9,372,058
Issuance of common stock, net of offering costs of $1,184,000	7,649,968	7,650	18,698,634	-	18,706,284
Exercise of stock options	1,875	2	5,342	-	5,344
Vested restricted stock	2,000	2	(2)	-	-
Share-based compensation	-	-	399,861	-	399,861
Net loss	-	-	-	(2,764,124)	(2,764,124)

Balance, July 1, 2017	45,571,891	$45,572	$75,590,304	$(49,916,453)	$25,719,423

See Notes to Consolidated Financial Statements.

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ChromaDex Corporation and Subsidiaries

Condensed Consolidated Statements of Cash Flows

For the Six Month Periods Ended July 1, 2017 and July 2, 2016

	July 1, 2017	July 2, 2016
Cash Flows From Operating Activities		
Net income (loss)	$(4,692,879)	$172,958
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation of leasehold improvements and equipment	264,235	159,370
Amortization of intangibles	89,803	38,415
Share-based compensation expense	719,691	657,637
Allowance for doubtful trade receivables	(344,055)	29,649
Loss from disposal of equipment	1,452	-
Non-cash loss on debt extinguishment	-	32,007
Non-cash financing costs	56,587	94,080
Changes in operating assets and liabilities:		
Trade receivables	1,628,288	(4,372,837)
Inventories	179,362	3,628,678
Prepaid expenses and other assets	(554,679)	(266,831)
Accounts payable	(2,950,302)	(3,892,582)
Accrued expenses	(62,174)	634,562
Customer deposits and other	114,840	(9,150)
Deferred rent	20,451	106,657
Due to officer	(32,500)	-
Net cash used in operating activities	(5,561,880)	(2,987,387)
Cash Flows From Investing Activities		
Purchases of leasehold improvements and equipment	(295,078)	(231,201)
Purchases of intangible assets	(183,958)	(195,000)
Net cash used in investing activities	(479,036)	(426,201)

Cash Flows From Financing Activities		
Proceeds from issuance of common stock, net of issuance costs	18,706,284	5,720,000
Proceeds from exercise of stock options	11,966	622,384
Payment of debt issuance costs	(42,279)	-
Principal payment on loan payable	-	(5,000,000)
Principal payments on capital leases	(138,877)	(108,249)
Net cash provided by financing activities	18,537,094	1,234,135
Net increase (decrease) in cash	12,496,178	(2,179,453)
Cash Beginning of Period	1,642,429	5,549,672
Cash Ending of Period	$14,138,607	$3,370,219
Supplemental Disclosures of Cash Flow Information		
Cash payments for interest	$26,611	$239,839
Supplemental Schedule of Noncash Investing Activity		
Noncash consideration transferred for the acquisition of Healthspan Research LLC	$1,187,430	$-
Capital lease obligation incurred for the purchase of equipment	$232,114	$-
Inventory supplied to Healthspan Research LLC for equity interest, at cost	$-	$20,318
Retirement of fully depreciated equipment - cost	$55,947	$28,083
Retirement of fully depreciated equipment - accumulated depreciation	$(55,947)	$(28,083)

See Notes to Consolidated Financial Statements.

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Note 1. Interim Financial Statements

The accompanying financial statements of ChromaDex Corporation and its wholly owned subsidiaries, ChromaDex, Inc., Healthspan Research, LLC, ChromaDex Analytics, Inc. and ChromaPharma, Inc. (collectively referred to herein as “ChromaDex” or the “Company” or, in the first person as “we”, “us” and “our”) include all adjustments, consisting of norma 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 July 1, 2017 and results of operations and cash flows for the three and six months ended July 1, 2017 and July 2, 2016. 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, 2016 appearing in the Company’s Annual Report on Form 10-K filed with the Securities and Exchange Commission (the “Commission”) on March 16, 2017. Operating results for the six months ended July 1, 2017 are not necessarily indicative of the results to be achieved for the full year ending on December 30, 2017. 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 December 31, 2016 has been derived from the audited financial statements at that date, but does not include all of the information and footnotes required by GAAP for complete financial statements.

Note 2. Nature of Business and Liquidity

Nature of business: The Company is a natural products company that discovers, acquires, develops and commercializes patented and proprietary ingredient technologies that address the dietary supplement, food, beverage, skin care and pharmaceutical markets. With the acquisition of Healthspan Research, LLC in March 2017, the Company now has a consumer product, which it plans to further develop and market. Along with the Company's ingredients segment that includes our consumer product business, the Company also has a core standards and contract services segment, which focuses on natural product fine chemicals (known as “phytochemicals”) and chemistry and analytical testing services, and a regulatory consulting segment. As a result of the Company’s relationships with leading universities and research institutions, the Company is able to discover and license early stage, intellectual property-backed ingredient technologies. The Company then utilizes its business to develop commercially viable proprietary ingredients. The Company’s proprietary ingredient portfolio is backed with clinical and scientific research, as well as extensive intellectual property protection.

Liquidity: The Company has incurred loss from operations of approximately $4,610,000 and net loss of approximately $4,693,000 for the six-month period ended July 1, 2017. As of July 1, 2017, the cash and cash equivalents totaled approximately $14.1 million.

On April 26, 2017, the Company entered into a Securities Purchase Agreement with certain purchasers named therein, pursuant to which the Company agreed to sell and issue up to $25.0 million of its Common Stock in three tranches. The first and second tranche closed on April 27, 2017 and May 24, 2017, respectively, and the Company received $3.5 million and $16.4 million, respectively. The third tranche is expected to close following a related stockholder approval at the Company's special meeting on August 10, 2017.

While we anticipate that our current cash, cash equivalents, cash to be generated from operations and the funds from the financing transaction described above will be sufficient to meet our projected operating plans through at least August 11, 2018, 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.

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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, 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 2016 ended on December 31, 2016 consisted of normal 52 weeks. The fiscal year 2017 ending on December 30, 2017 will also include the normal 52 weeks.

Adopted Accounting Pronouncements Fiscal 2017: In January 2017, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business. The ASU 2017-01 clarifies the definition of a business with the objective of adding guidance to assist companies and other reporting organizations with evaluating whether transactions should be accounted for as acquisitions of assets or businesses. The Company early adopted the amendments in this ASU effective as of January 1, 2017. On March 12, 2017, the Company acquired all of the outstanding equity interests of Healthspan Research, LLC ("Healthspan") pursuant to a Membership Interest Purchase Agreement by and among (i) Robert Fried, Jeffrey Allen and Dr. Charles Brenner (the "Sellers") and (ii) ChromaDex Corporation. Under ASU 2017-01, this transaction was treated as an acquisition of assets, rather than a business. For details on the acquisition of Healthspan, please refer to Note 5. Acquisition and Related Party Transaction appearing later on this report.

In March 2016, the FASB issued ASU 2016-09, Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting to simplify the accounting for stock compensation. It focuses on income tax accounting, award classification, estimating forfeitures, and cash flow presentation. The Company adopted the amendments in this ASU effective as of January 1, 2017. The adoption of ASU 2016-09 did not have a material effect on our consolidated financial statements.

In July 2015, the FASB issued ASU 2015-11, Inventory (Topic 330) - Simplifying the Measurement of Inventory, which requires that inventories, other than those accounted for under Last-In-First-Out, will be reported at the lower of cost or net realizable value. Net realizable value is the estimated selling price less costs of completion, disposal and transportation. The Company adopted the amendments in this ASU effective as of January 1, 2017. The adoption of ASU 2015-11 did not have a material effect on our consolidated financial statements.

Recent accounting standards: In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers: Topic 606 (ASU 2014-09), to supersede nearly all existing revenue recognition guidance under U.S. Generally Accepted Accounting Principles ("GAAP"). The core principle of ASU 2014-09 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration that is expected to be received for those goods or services. ASU 2014-09 defines a five step process to achieve this core principle and, in doing so, it is possible more judgment and estimates may be required within the revenue recognition process than required under existing U.S. GAAP including identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. ASU 2014-09 is effective for us in our first quarter of fiscal 2018 using either of two methods: (i) retrospective to each prior reporting period presented with the option to elect certain practical expedients as defined within ASU 2014-09; or (ii) retrospective with the cumulative effect of initially applying ASU 2014-09 recognized at the date of initial application and providing certain additional disclosures as defined per ASU 2014-09. We are currently evaluating the impact of our pending adoption of ASU 2014-09 on our consolidated financial statements.

Note 4. Earnings Per Share Applicable to Common Stockholders

The following table sets forth the computations of earnings per share amounts applicable to common stockholders for the three and six months ended July 1, 2017 and July 2, 2016:

	Three Months Ended		Six Months Ended	
	July 1, 2017	July 2, 2016	July 1, 2017	July 2, 2016
Net income (loss)	$(2,764,124)	$(82,667)	$(4,692,879)	$172,958
Basic weighted average common shares outstanding (1):	42,121,150	36,990,032	40,075,920	36,702,037
Basic earnings (loss) per common share	$(0.07)	$(0.00)	$(0.12)	$0.00
Dilutive effect of stock options, net	-	-	-	726,879
Dilutive effect of warrants, net	-	-	-	41,750
Diluted weighted average common shares outstanding :	42,121,150	36,990,032	40,075,920	37,470,666
Diluted earnings (loss) per common share	$(0.07)	$(0.00)	$(0.12)	$0.00
Potentially dilutive securities, total (2):				
Stock options	5,965,172	5,126,943	5,965,172	4,400,064
Warrants	470,444	487,111	470,444	445,361

(1)
Includes approximately 0.5 million weighted average nonvested shares of restricted stock for the three and six month periods ending July 1, 2017, respectively, and approximately 0.4 million weighted average nonvested shares of restricted stock for the three and six month periods ending July 2, 2016, respectively. These shares are participating securities that feature voting and dividend rights.

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

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Note 5. Asset Acquisition and Related Party Transaction

On March 12, 2017, the Company acquired all of the outstanding equity interests of Healthspan from Robert Fried, Jeffrey Allen and Dr. Charles Brenner (the "Sellers"). Robert Fried is a member of the Board of Directors ("Board") of the Company, a position he has held since July 2015.

Upon the closing of, and as consideration for, the acquisition, the Company issued an aggregate of 367,648 shares of the Company's common stock to the Sellers. The fair value of these shares was approximately $1.0 million based on the closing price of $2.72 per share on March 12, 2017. Also on March 12, 2017, the Company appointed Robert Fried as President and Chief Strategy Officer, effective immediately. Mr. Fried continues to serve as a member of the Board, but resigned as a member of the Nominating and Corporate Governance Committee of the Board.

Healthspan was formed in August 2015 to offer and sell finished bottle products that contain NIAGEN® directly to consumers through internet-based selling platforms. NIAGEN® is the leading ingredient the Company currently sells. Prior to the acquisition, the Company has supplied certain amount of NIAGEN® to Healthspan as a raw material inventory in exchange for a 4% equity interest in Healthspan. An additional 5% equity interest was received for granting certain exclusive rights to resell NIAGEN®.

The Company acquired the consumer product business model that Healthspan has established. Included in the business model acquired is the know-how marketing to date, and the designs and procedures needed to operate a consumer product business. This transaction was accounted for as an acquisition of assets. An intangible asset of approximately $1.35 million was recorded as a result of this acquisition, which is the difference of consideration transferred and the net amount of assets acquired and liabilities assumed.

(A) Consideration transferred		(B) Net amount of assets and liabilities	
	Fair value	Assets acquired	Fair value
Common Stock	$ 1,000,000	Cash and cash equivalents	$ 19,000
Transaction costs	178,000	Trade receivables	11,000
Previously held equity interest	20,000	Inventory	61,000
	$ 1,198,000	Liabilities assumed	
		Due to officer	(132,000)
		Accounts payable	(74,000)
		Credit card payable	(30,000)
		Other accrued expenses	(3,000)
Consumer product business model, intangible asset (A) -(B)	$ 1,346,000	Net assets	$ (148,000)

The acquired intangible asset is considered to have a useful life of 10 years as we believe the economic benefits from the acquisition will last at least 10 years. The expense is amortized using the straight-line method over the useful life and the Company recognized an amortization expense of approximately $41,000 for the six months ended July 1, 2017.

In cancellation of a loan owed by Healthspan to Mr. Fried prior to the acquisition, the Company repaid $32,500 to Mr. Fried on March 13, 2017 and will also repay $100,000 on March 12, 2018. No interest is to be paid for the outstanding $100,000 due to Mr. Fried.

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Note 6. Trade Receivables Allowances

The allowance amounts for the periods ended July 1, 2017 and December 31, 2016 are as follows:

	July 1, 2017	December 31, 2016
Allowances related to		
Customer C	$500,000	$800,000
Customer E	184,000	198,000
Other allowances	52,000	83,000
	$736,000	$1,081,000

Note 7. Inventories

The amounts of major classes of inventory as of July 1, 2017 and December 31, 2016 are as follows:

	July 1, 2017	December 31, 2016
Bulk ingredients	$6,833,000	$7,044,000
Reference standards	1,052,000	1,033,000
Dietary supplement - finished bottles	23,000	-
Dietary supplement - work-in-process	48,000	-
	7,956,000	8,077,000
Less valuation allowance	(162,000)	(164,000)
	$7,794,000	$7,913,000

Note 8. Employee Share-Based Compensation

Stock Option Plans

On June 20, 2017, the stockholders of the Company approved the ChromaDex Corporation 2017 Equity Incentive Plan (the "2017 Plan"). The 2017 Plan is intended to be the successor to the ChromaDex Corporation Second Amended and Restated 2007 Equity Incentive Plan (the "2007 Plan"). Under the 2017 Plan, the Company is authorized to issue stock options that total no more than the sum of (i) 3,000,000 new shares, (ii) approximately 384,000 unallocated shares remaining available for the grant of new awards under the 2007 Plan, and (iii) any returning shares from the 2007 Plan or the 2017 Plan, such as forfeited, cancelled, or expired shares.

Share-Based Compensation for Robert Fried

On March 12, 2017, the Board appointed Robert Fried, as President and Chief Strategy Officer. In connection with his appointment as President and Chief Strategy Officer, the Company granted an option to purchase up to 500,000 shares

of ChromaDex common stock under the 2007 Plan, subject to monthly vesting over a three-year period. The Company also granted 166,667 shares of restricted stock, subject to annual vesting over a three-year period. The fair value measured for the granted restricted stock was approximately $453,000 and the expense is amortized over the vesting period of three years.

Service Period Based Stock Options

The following table summarizes activity of service period based stock options granted to employees at July 1, 2017 and changes during the six months then ended:

		Weighted Average			
	Number of Shares	Exercise Price	Remaining Contractual Term	Fair Value	Aggregate Intrinsic Value
Outstanding at December 31, 2016	4,281,151	$3.52	6.36		
Options Granted	693,334	2.89	10.00	$1.85	
Options Exercised	(3,202)	2.07			$3,000
Options Forfeited	(33,419)	3.53			
Outstanding at July 1, 2017	4,937,864	$3.43	6.40		$3,072,000
Exercisable at July 1, 2017	3,348,382	$3.43	5.09		$2,246,000

The aggregate intrinsic values in the table above are based on the Company’s stock price of $3.82, which is the closing price of the Company’s stock on the last day of business for the period ended July 1, 2017.

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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 six months ended July 1, 2017.

	Six Months Ended July 1, 2017
Expected term	5.8 years
Expected volatility	73%
Expected dividends	0.00%
Risk-free rate	2.13%

As of July 1, 2017, there was approximately $3,081,000 of total unrecognized compensation expected to be recognized over a weighted average period of 2.4 years.

Employee Share-Based Compensation

The Company recognized compensation expense of approximately $371,000 and $677,000 in general and administrative expenses in the statement of operations for the three and six months ended July 1, 2017, respectively, and approximately $314,000 and $621,000 for the three and six months ended July 2, 2016, respectively.

Note 9. Stock Issuance

On April 26, 2017, the Company entered into a Securities Purchase Agreement (the "SPA") with certain purchasers named therein, pursuant to which the Company agreed to sell and issue up to $25.0 million of its common stock at a purchase price of $2.60 per share in three tranches of approximately $3.5 million, $16.4 million and $5.1 million, respectively. The first two tranches closed during the three months ended July 1, 2017, whereby approximately 7.6 million shares were issued for proceeds of $19.9 million. The third tranche is expected to close following a related stockholder approval at the Company's special meeting on August 10, 2017.

Note 10. Business Segments

Since the year ended December 31, 2016, the Company has made operational changes to merge its scientific and regulatory consulting segment into core standards and contract services segment. Additionally, the consumer product operations recently acquired in connection with the Healthspan acquisition are categorized as a part of the ingredients segment.

As a result, the Company has the following two reportable segments:

Ingredients segment develops and commercializes proprietary-based ingredient technologies and supplies these ingredients to consumers in finished products or as raw materials 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 (i) supply of phytochemical reference standards, (ii) analytical and chemistry based services and (iii) scientific and regulatory consulting.

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

Three months ended July 1, 2017	Ingredients segment	Core Standards and Contract Services segment	Corporate and other	Total
Net sales	$3,004,656	$2,302,199	$-	$5,306,855
Cost of sales	1,356,845	1,687,241	-	3,044,086
Gross profit	1,647,811	614,958	-	2,262,769
Operating expenses:				
Sales and marketing	453,668	274,631	-	728,299
Research and development	849,962	-	-	849,962
General and administrative	-	-	2,657,573	2,657,573
Other	745,773	-	-	745,773
Operating expenses	2,049,403	274,631	2,657,573	4,981,607
Operating income (loss)	$(401,592)	$340,327	$(2,657,573)	$(2,718,838)

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Three months ended July 2, 2016	Ingredients segment	Core Standards and Contract Services segment	Corporate and other	Total
Net sales	$6,241,749	$2,587,830	$-	$8,829,579
Cost of sales	3,034,389	1,667,743	-	4,702,132
Gross profit	3,207,360	920,087	-	4,127,447
Operating expenses:				
Sales and marketing	399,700	298,331	-	698,031
Research and development	736,726	15,000	-	751,726
General and administrative	-	-	2,306,559	2,306,559
Operating expenses	1,136,426	313,331	2,306,559	3,756,316
Operating income (loss)	$2,070,934	$606,756	$(2,306,559)	$371,131

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Six months ended July 1, 2017	Ingredients segment	Core Standards and Contract Services segment	Corporate and other	Total
Net sales	$5,089,059	$4,666,918	$-	$9,755,977
Cost of sales	2,271,612	3,468,943	-	5,740,555
Gross profit	2,817,447	1,197,975	-	4,015,422
Operating expenses:				
Sales and marketing	759,013	565,448	-	1,324,461
Research and development	1,514,152	-	-	1,514,152
General and administrative	-	-	5,040,719	5,040,719
Other	745,773	-	-	745,773
Operating expenses	3,018,938	565,448	5,040,719	8,625,105
Operating income (loss)	$(201,491)	$632,527	$(5,040,719)	$(4,609,683)

Six months ended July 2, 2016	Ingredients segment	Core Standards and Contract Services segment	Corporate and other	Total
Net sales	$10,842,375	$5,319,149	$-	$16,161,524
Cost of sales	5,133,551	3,449,107	-	8,582,658
Gross profit	5,708,824	1,870,042	-	7,578,866
Operating expenses:				
Sales and marketing	731,443	511,310	-	1,242,753
Research and development	1,200,798	15,000	-	1,215,798
General and administrative	-	-	4,295,118	4,295,118

Operating expenses	1,932,241	526,310	4,295,118	6,753,669
Operating income (loss)	$3,776,583	$1,343,732	$(4,295,118)	$825,197

At July 1, 2017	Ingredients segment	Core Standards and Contract Services segment	Corporate and other	Total
Total assets	$13,413,963	$3,982,296	$15,523,905	$32,920,164

At December 31, 2016	Ingredients segment	Core Standards and Contract Services segment	Corporate and other	Total
Total assets	$13,257,289	$3,918,440	$2,576,339	$19,752,068

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Disclosure of major customers

Major customers who accounted for more than 10% of the Company's total sales were as follows:

	Three months ended		Six months ended	
Major Customers	July 1, 2017	July 2, 2016	July 1, 2017	July 2, 2016
Customer C (Ingredients segment)	*	34.5%	*	31.3%
Customer F (Ingredients and Core segment)	11.9%	*	*	*

* Represents less than 10%.

Major customers who accounted for more than 10% of the Company's total trade receivables were as follows:

	Percentage of the Company's Total Trade Receivables	
Major Customers	At July 1, 2017	At December 31, 2016
Customer C (Ingredients segment)	48.8%	45.8%
Customer D (Ingredients and Core segment)	*	10.2%

* Represents less than 10%.

Note 11. Commitments and Contingencies

Legal proceedings

On December 29, 2016, ChromaDex, Inc. filed a complaint (the "Complaint") in the United States District Court for the Central District of California, naming Elysium Health, Inc. as defendant. Among other allegations, ChromaDex, Inc. alleges in the Complaint that (i) Elysium breached the Supply Agreement, dated June 26, 2014, by and between ChromaDex, Inc. and Elysium Health, LLC ("Elysium") (the "pTeroPure® Supply Agreement"), by failing to make payments to ChromaDex, Inc. for purchases of pTeroPure® pursuant to the pTeroPure® Supply Agreement, (ii) Elysium breached the Supply Agreement, dated February 3, 2014, by and between ChromaDex, Inc. and Elysium, as

amended (the "NIAGEN® Supply Agreement"), by failing to make payments to ChromaDex, Inc. for purchases of NIAGEN® pursuant to the NIAGEN® Supply Agreement, (iii) Elysium breached the Trademark License and Royalty Agreement, dated February 3, 2014, by and between ChromaDex, Inc. and Elysium (the "License Agreement"), by failing to make payments to ChromaDex, Inc. for royalties due pursuant to the License Agreement and (iv) certain officers of Elysium made false promises and representations to induce ChromaDex, Inc. into providing large supplies of pTeroPure® and NIAGEN® to Elysium pursuant to the pTeroPure® Supply Agreement and NIAGEN® Supply Agreement. ChromaDex, Inc. is seeking punitive damages, money damages and interest.

On January 25, 2017, Elysium filed an answer and counterclaims (the "Counterclaim") in response to the Complaint. Among other allegations, Elysium alleges in the Counterclaim that (i) ChromaDex, Inc. breached the NIAGEN® Supply Agreement by not issuing certain refunds or credits to Elysium and for violating certain confidential information provisions, (ii) ChromaDex, Inc. breached the implied covenant of good faith and fair dealing pursuant to the NIAGEN® Supply Agreement, (iii) ChromaDex, Inc. breached certain confidential provisions of the pTeroPure® Supply Agreement, (iv) ChromaDex, Inc. fraudulently induced Elysium into entering into the License Agreement (the "Fraud Claim"), (v) ChromaDex, Inc.'s conduct constitutes misuse of its patent rights (the "Patent Claim") and (vi) ChromaDex, Inc. has engaged in unlawful or unfair competition under California state law (the "Unfair Competition Claim"). Elysium is seeking damages for ChromaDex, Inc.'s alleged breaches of the NIAGEN® Supply Agreement and pTeroPure® Supply Agreement, and compensatory damages, punitive damages and/or rescission of the License Agreement and restitution of any royalty payments conveyed by Elysium pursuant to the License Agreement.

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On February 15, 2017, ChromaDex, Inc. filed an amended complaint. In the amended complaint, ChromaDex, Inc. re-alleges the claims in the Complaint, and also alleges that Elysium willfully and maliciously misappropriated ChromaDex, Inc.’s trade secrets. On February 15, 2017, ChromaDex, Inc. also filed a motion to dismiss the Fraud Claim, the Patent Claim and the Unfair Competition Claim. On March 1, 2017, Elysium filed a motion to dismiss ChromaDex, Inc.'s fraud and trade secret misappropriation causes of action. On March 6, 2017, Elysium filed a first amended counterclaim. On March 20, 2017, ChromaDex, Inc. moved to dismiss Elysium's amended fraud, patent misuse and the Unfair Competition Claim. On May 10, 2017, the court ruled on the motions to dismiss, denying ChromaDex, Inc.’s motion as to Elysium’s fraud and patent misuse claims and granting ChromaDex, Inc.’s motion with prejudice as to Elysium’s Unfair Competition Claim. With respect to Elysium’s motion, the court granted the motion with prejudice as to ChromaDex, Inc.’s fraud claim and granted with leave to amend the motion as to ChromaDex, Inc.’s trade secret misappropriation claims. On May 24, 2017, ChromaDex, Inc. answered the first amended counterclaim and asserted several affirmative defenses. Also on May 24, 2017, ChromaDex, Inc. filed a second amended complaint, amending the trade secret misappropriation claims and addressing Elysium’s patent misuse counterclaim. On June 7, 2017, ChromaDex, Inc. filed a third amended complaint dismissing the trade secret misappropriation claims and asserting two breach of contract claims for Elysium’s failure to pay for the product delivered. On June 16, 2017, Elysium answered the third amended complaint. On July 17, 2017, Elysium filed petitions with the U.S. Patent and Trademark Office for inter partes review of U.S. Patent No. 8,197,807 and 8,383,086, patents to which ChromaDex, Inc. is the exclusive licensee.

As of July 1, 2017, ChromaDex, Inc. did not accrue a potential loss for the Counterclaim because ChromaDex, Inc. believes that the allegations are without merit and thus it is not probable that a liability had been incurred, and the amount of loss cannot be reasonably estimated.

From time to time we are involved in legal proceedings arising in the ordinary course of our business. We believe that there is no other litigation pending that is likely to have, individually or in the aggregate, a material adverse effect on our financial condition or results of operations.

Lease

Subsequent to the period ended July 1, 2017, the Company entered into a lease for an office space located in Los Angeles, California through September 2021. Pursuant to the lease, the Company will make monthly lease payments ranging from approximately $11,000 to $21,000, as the payments escalate during the term of the lease.

Employment agreement with Robert Fried

On March 12, 2017, the Company entered into an Employment Agreement (the "Fried Agreement") with Robert Fried. Mr. Fried is entitled to receive certain severance payments per the terms of the Fried Agreement. The key terms of the Fried Agreement, including the severance terms are as follows:

Mr. Fried is entitled to: (i) an annual base salary of $300,000; (ii) an annual cash bonus equal to (a) 1% of net direct-to-consumer sales of products with nicotinamide riboside as a lead ingredient by the Company plus (b) 2% of direct to consumer net sales of products with nicotinamide riboside as a lead ingredient for the portion of such sales that exceeded prior year sales plus (c) 1% of the gross profit derived from nicotinamide riboside ingredient sales to dietary supplement producers; (iii) an option to purchase up to 500,000 shares of Common Stock under the 2007 plan, subject to monthly vesting over a three-year period; and (iv) 166,667 shares of restricted Common Stock, subject to annual vesting over a three-year period.

Subject to Mr. Fried's continuous service through such date, Mr. Fried is also eligible to receive (i) on March 12, 2018, 166,667 shares of restricted Common Stock, subject to annual vesting over a two-year period, (ii) on March 12, 2019, 166,666 shares of restricted Common Stock that vest in full on the one year anniversary of the grant date and (iii) up to 500,000 shares of fully-vested restricted Common Stock that will be granted upon the achievement of certain performance goals. Any unvested options or shares of restricted stock will vest in full upon (a) a change in control of the Company, (b) Mr. Fried's death, (c) Mr. Fried's disability, (d) termination by the Company of Mr. Fried's employment without cause or (e) Mr. Fried's resignation for good reason, subject in each case to Mr. Fried's continuous service as an employee or consultant of the Company or any of its subsidiaries though such event.

The severance terms of the Fried Agreement provide that if (i) Mr. Fried's employment is terminated by the Company without cause, for death or disability, or Mr. Fried resigns for good reason, or (ii) (a) a change in control of the Company occurs and (b) within one month prior to the date of such change in control or twelve months after the date of such change in control R. Fried's employment is terminated by the Company other than for cause, then, subject to executing a release, Mr. Fried will receive (w) continuation of his base salary for 12 months, (x) health care continuation coverage payments premiums for 12 months, (y) a prorated annual cash bonus earned for the fiscal year in which such termination or resignation occurs, and (z) an extended exercise period for his options

Note 12. Other Expense

Loss from an ongoing litigation, Elysium Health, Inc.

During the three months ended July 1, 2017, the Company, in relation to the ongoing litigation, incurred a write-off of approximately $746,000 in gross trade receivable from Elysium Health, Inc. related to royalties. As a result of this write-off and after further analysis, the Company made an adjustment to the total allowance amount from ($800,000) to ($500,000).

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

Certain statements in this Management's Discussion and Analysis (“MD&A”), other than purely historical information, including estimates, projections, statements relating to our business plans, objectives and expected operating results, and the assumptions upon which those statements are based, are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements generally can be identified by the use of forward-looking terminology such as “may,” “would,” “expect,” “intend,” “could,” “estimate,” “should,” “anticipate,” or “b and similar expressions. Forward-looking statements are based on current expectations and assumptions that are subject to risks and uncertainties which may cause actual results to differ materially from the forward-looking statements. We undertake no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events, or otherwise. Readers should carefully review the risk factors and related notes set forth below in Part II, Item 1A, “Risk Factors” and included under Part I, Item 1A, “Risk Factors” of our Annual Report on Form 10-K for the year ended December 31, 2016 filed with the Securities and Exchange Commission on March 16, 2017 (our “Annual Report”).

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

Growth and percentage comparisons made herein generally refer to the three and six months ended July 1, 2017 compared with the three and six months ended July 2, 2016 unless otherwise noted. Unless otherwise indicated or unless the context otherwise requires, all references in this document to “we,” “us,” “our,” the “Company,” and similar expressions refer to ChromaDex Corporation, and depending on the context, its subsidiaries.

Company Overview

The business of ChromaDex Corporation is conducted by our principal subsidiaries, ChromaDex, Inc., Healthspan Research, LLC, ChromaDex Analytics, Inc. and ChromaPharma, Inc. The Company is a natural products company that leverages its complementary business units to discover, acquire, develop and commercialize patented and proprietary ingredient technologies that address the dietary supplement, food, beverage, skin care and pharmaceutical markets. With the recent acquisition of Healthspan Research, LLC, the Company is also selling consumer products. Along with our ingredients segment that includes our consumer product business, the Company also has a core standards and contract services segment, which focuses on (i) natural product fine chemicals (known as “phytochemicals”) (ii) chemistry and analytical testing services, and (iii) scientific and regulatory consulting. As a result of the Company’s relationships with leading universities and research institutions, the Company is able to discover and license early stage, intellectual property-backed ingredient technologies. The Company then utilizes the Company’s business segments to develop commercially viable proprietary ingredients. The Company’s proprietary ingredient portfolio is backed with clinical and scientific research, as well as extensive intellectual property protection.

The discussion and analysis of our financial condition and results of operations is based on our financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles (“GAAP”). The preparation of these financial statements requires our management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported revenues, if any, and expenses during the reporting periods. On an ongoing basis, we evaluate such estimates and judgments, including those described in greater detail below. We base our estimates

on historical experience and on various other factors that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

As of July 1, 2017, the Company had approximately $14.1 million cash and cash equivalents on hand. On April 26, 2017, the Company entered into a Securities Purchase Agreement with certain purchasers named therein, pursuant to which the Company agreed to sell and issue up to $25.0 million of its Common Stock in three tranches. The first and second tranche closed on April 27, 2017 and May 24, 2017, respectively, and the Company received $3.5 million and $16.4 million, respectively. The third tranche is expected to close following a related stockholder approval at the Company's special meeting on August 10, 2017. We anticipate that our current cash, cash equivalents, cash to be generated from operations and the funds from the financing transaction described above will be sufficient to meet our projected operating plans through at least August 11, 2018. We may, however, seek additional capital prior to August 11, 2018, both to meet our projected operating plans after August 11, 2018 and/or to fund our longer term strategic objectives.

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

Financial Condition and Results of Operations

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

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

Our net sales and net income (loss) for the three- and six-month periods ending on July 1, 2017 and July 2, 2016 were as follows:

	Three months ending		Six months ending	
	July 1, 2017	July 2, 2016	July 1, 2017	July 2, 2016

Net sales	$5,307,000	$8,830,000	$9,756,000	$16,162,000
Net income (loss)	(2,764,000)	(83,000)	(4,693,000)	173,000
Basic earnings (loss) per common share	$(0.07)	$(0.00)	$(0.12)	$0.00
Diluted earnings (loss) per common share	$(0.07)	$(0.00)	$(0.12)	$0.00

Over the next twelve months, we plan to continue to increase research and development efforts for our line of proprietary ingredients, subject to available financial resources.

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Net Sales

Net sales consist of gross sales less discounts and returns.

	Three months ending			Six months ending		
	July 1, 2017	July 2, 2016	Change	July 1, 2017	July 2, 2016	Change
Net sales:						
Ingredients	$3,005,000	$6,242,000	-52%	$5,089,000	$10,842,000	-53%
Core standards and contract services	2,302,000	2,588,000	-11%	4,667,000	5,320,000	-12%
Total net sales	$5,307,000	$8,830,000	-40%	$9,756,000	$16,162,000	-40%

The decrease in sales for the ingredients segment for the three and six months ended July 1, 2017 is mainly due to decreased sales of “NIAGEN®.” During the six months ended July 1, 2017, we did not ship NIAGEN® to certain customers that placed large orders during the six months ended July 2, 2016.

The decrease in sales for the core standards and contract services segment is primarily due to decreased sales of analytical testing and contract services.

Cost of Sales

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

	Three months ending				Six months ending			
	July 1, 2017		July 2, 2016		July 1, 2017		July 2, 2016	
	Amount	% of net sales	Amount	% of net sales	Amount	% of net sales	Amount	% of net sales
Cost of sales:								
Ingredients	$1,357,000	45%	$3,035,000	49%	$2,272,000	45%	$5,134,000	47%
Core standards and contract services	1,687,000	73%	1,667,000	64%	3,469,000	74%	3,449,000	65%
Total cost of sales	$3,044,000	57%	$4,702,000	53%	$5,741,000	59%	$8,583,000	53%

The cost of sales, as a percentage of net sales, increased 4% and 6% for the three- and six-month periods ended July 1, 2017, respectively, compared to the comparable periods in 2016.

The cost of sales, as a percentage of net sales, for the ingredients segment decreased 4% and 2% for the three- and six-month periods, respectively, as we were able to manage favorable pricing levels.

The cost of sales, as a percentage of net sales for the core standards and contract services segment, increased 9% for both the three- and six-month periods ended July 1, 2017, compared to the comparable periods in 2016. The decrease in analytical testing and contract services sales led to a lower labor utilization rate, which resulted in increasing our cost of sales as a percentage of net sales.

Gross Profit

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

	Three months ending			Six months ending		
	July 1, 2017	July 2, 2016	Change	July 1, 2017	July 2, 2016	Change
Gross profit:						
Ingredients	$1,648,000	$3,207,000	-49%	$2,817,000	$5,709,000	-51%
Core standards and contract services	615,000	920,000	-33%	1,198,000	1,870,000	-36%
Total gross profit	$2,263,000	$4,127,000	-45%	$4,015,000	$7,579,000	-47%

The decreased gross profit for the ingredients segment for the three and six months ended July 1, 2017 is due to the decreased sales of “NIAGEN®.”

The decreased gross profit for the core standards and contract services segment is largely due to the decreased sale of analytical testing and contract services. Fixed labor costs make up the majority of costs for analytical testing and contract services and these fixed labor costs did not decrease in proportion to sales, hence yielding lower profit margin.

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Operating Expenses-Sales and Marketing

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

	Three months ending			Six months ending		
	July 1, 2017	July 2, 2016	Change	July 1, 2017	July 2, 2016	Change
Sales and marketing expenses:						
Ingredients	$454,000	$400,000	14%	$759,000	$732,000	4%
Core standards and contract services	274,000	298,000	-8%	565,000	511,000	11%
Total sales and marketing expenses	$728,000	$698,000	4%	$1,324,000	$1,243,000	7%

For the ingredients segment, the increase for the three and six months ended July 1, 2017 is largely due to marketing expenses related to our recently acquired consumer product business through Healthspan Research LLC. Subject to available financial resources, we plan to increase our marketing efforts for our consumer product business.

For the core standards and contract services segment, the decrease for the three months ended July 1, 2017 is largely due to decreased marketing efforts, while the increase for the six months ended July 1, 2017 is mainly due to hiring additional staff.

Operating Expenses-Research and Development

Research and development expenses mainly consist of clinical trials and process development expenses.

	Three months ending			Six months ending		
	July 1, 2017	July 2, 2016	Change	July 1, 2017	July 2, 2016	Change
Research and development expenses:						
Ingredients	$850,000	$737,000	15%	$1,514,000	$1,201,000	26%
Core standards and contract services	-	15,000	-100%	-	15,000	-100%
Total sales and marketing expenses	$850,000	$752,000	13%	$1,514,000	$1,216,000	25%

For the ingredients segment, we increased our research and development efforts for the ingredients segment with a focus on our “NIAGEN®” brand. Subject to available financial resources, we plan to continue to increase research and development efforts for our line of proprietary ingredients.

For the core standards and contract services segment, we explored processes to develop certain compounds at a larger scale during the three months ended July 2, 2016.

Operating Expenses-General and Administrative

General and administrative expenses consist of general company administration, IT, accounting and executive management.

	Three months ending			Six months ending		
	July 1, 2017	July 2, 2016	Change	July 1, 2017	July 2, 2016	Change
General and administrative	$2,658,000	$2,307,000	15%	$5,041,000	$4,295,000	17%

The increase was primarily related to legal expenses. For the three- and six-month periods ended July 1, 2017, our legal expenses increased to approximately $522,000 and $953,000, respectively, compared to approximately $69,000 and $80,000, respectively, for the comparable periods in 2016. The ongoing litigation with Elysium Health, Inc. was the main reason for the increase in legal expenses.

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Operating Expense-Other

Other expense consists of loss from an ongoing litigation.

	Three months ending			Six months ending		
	July 1, 2017	July 2, 2016	Change	July 1, 2017	July 2, 2016	Change
Other	$746,000	$-		$746,000	$-	

During the three months ended July 1, 2017, the Company, in relation to ongoing litigation, incurred a write-off of approximately $746,000 in gross trade receivable from Elysium Health, Inc. related to royalties.

Non-operating Expenses- Interest Expense, net

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

	Three months ending			Six months ending		
	July 1, 2017	July 2, 2016	Change	July 1, 2017	July 2, 2016	Change
Interest expense, net	$45,000	$145,000	-69%	$83,000	$332,000	-75%

The decrease in interest expense was mainly due to the term loan from Hercules Technology II, L.P. which the Company drew down an initial $2.5 million on September 29, 2014 and a second $2.5 million on June 18, 2015. The Company fully repaid the loan on June 14, 2016.

Income Taxes

At July 1, 2017 and July 2, 2016, the Company maintained a full valuation allowance against the entire deferred income tax balance which resulted in an effective tax rate of approximately 0% and 4% for the six-month periods ended July 1, 2017 and July 2, 2016, respectively.

Depreciation and Amortization

Depreciation expense for the six-month period ended July 1, 2017 was approximately $264,000 as compared to $159,000 for the six-month period ended July 2, 2016. We depreciate our assets on a straight-line basis, based on the estimated useful lives of the respective assets.

Amortization expense of intangible assets for the six-month period ended July 1, 2017 was approximately $90,000 as compared to $38,000 for the six-month period ended July 2, 2016. We amortize intangible assets using a straight-line method, generally over 10 years. For licensed patent rights, the useful lives are 10 years or the remaining term of the patents underlying licensing rights, whichever is shorter. The useful lives of subsequent milestone payments that are capitalized are the remaining useful life of the initial licensing payment that was capitalized.

Liquidity and Capital Resources

From inception through July 1, 2017, we have incurred aggregate losses of approximately $50 million. These losses are primarily due to expenses associated with the development and expansion of our operations. These operations have been financed through capital contributions, the issuance of common stock and warrants through private placements, and the issuance of debt.

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

On April 26, 2017, the Company entered into a Securities Purchase Agreement (the "Purchase Agreement") with certain purchasers named therein, pursuant to which the Company agreed to sell and issue up to $25.0 million of its Common Stock in three tranches. The first and second tranche closed on April 27, 2017 and May 24, 2017, respectively, and the Company received $3.5 million and $16.4 million, respectively. The third tranche is expected to close following a related stockholder approval at the Company's special meeting on August 10, 2017.

While we anticipate that our current cash, cash equivalents, cash to be generated from operations and the funds from the financing transaction described above will be sufficient to meet our projected operating plans through at least August 11, 2018, 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.

Net cash used in operating activities

Net cash used in operating activities for the six months ended July 1, 2017 was approximately $5,562,000 as compared to approximately $2,987,000 for the six months ended July 2, 2016. Along with the net loss, a decrease in accounts payable and an increase in prepaid expenses were the largest uses of cash during the six-month period ended July 1, 2017, partially offset by the decrease in trade receivables. Net cash used in operating activities for the six months ended July 2, 2016 largely reflects a decrease in accounts payable and an increase in trade receivables along with the net loss.

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

Net cash used in investing activities

Net cash used in investing activities was approximately $479,000 for the six months ended July 1, 2017, compared to approximately $426,000 for the six months ended July 2, 2016. Net cash used in investing activities for the six months ended July 1, 2017 consisted of purchases of leasehold improvements and equipment and intangible assets. Net cash used in investing activities for the six months ended July 2, 2016 also consisted of purchases of leasehold improvements and equipment and intangible assets.

Net cash provided by financing activities

Net cash provided by financing activities was approximately $18,537,000 for the six months ended July 1, 2017, compared to approximately $1,234,000 for the six months ended July 2, 2016. Net cash provided by financing activities for the six months ended July 1, 2017 mainly consisted of proceeds from issuance of our common stock pursuant to the Purchase Agreement. Net cash provided by financing activities for the six months ended July 2, 2016 mainly consisted of proceeds from the issuance of our common stock and warrants through a private offering to our existing stockholders and exercise of stock options, offset by principal payments on loan payable and capital leases.

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Contractual Obligations and Commitments

During the six months ended July 1, 2017, there were no material changes outside of the ordinary course of business in the specified contractual obligations disclosed in “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” as contained in our Annual Report, other than as disclosed in “Item 1 Financial Statements” of this Quarterly Report.

Off-Balance Sheet Arrangements

During the six months ended July 1, 2017, we had no material off-balance sheet arrangements other than with respect to ordinary operating leases as disclosed in the “Financial Statements and Supplementary Data” section of our Annual Report.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk

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

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

Foreign Currency Risk

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

Effects of Inflation

We do not believe that inflation and changing prices during the six months ended July 1, 2017 and July 2, 2016 had a significant impact on our results of operations.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

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

Based on our evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of July 1, 2017, our disclosure controls and procedures are designed at a reasonable assurance level and are effective to provide reasonable assurance that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in SEC rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

An evaluation was also performed under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of any change in our internal control over financial reporting (as defined in Rule 13a−15(f) promulgated under the Securities Exchange Act of 1934, as amended) that occurred during our last fiscal quarter and that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting. There were no changes in internal control over financial reporting that occurred during the Company’s second fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

As previously disclosed, on December 29, 2016, ChromaDex, Inc. filed a complaint (the "Complaint") in the United States District Court for the Central District of California, naming Elysium Health, Inc. as defendant. Among other allegations, ChromaDex, Inc. alleges in the Complaint that (i) Elysium breached the Supply Agreement, dated June 26, 2014, by and between ChromaDex, Inc. and Elysium Health, LLC ("Elysium") (the "pTeroPure® Supply Agreement"), by failing to make payments to ChromaDex, Inc. for purchases of pTeroPure® pursuant to the pTeroPure® Supply Agreement, (ii) Elysium breached the Supply Agreement, dated February 3, 2014, by and between ChromaDex, Inc. and Elysium, as amended (the "NIAGEN® Supply Agreement"), by failing to make payments to ChromaDex, Inc. for purchases of NIAGEN® pursuant to the NIAGEN® Supply Agreement, (iii) Elysium breached the Trademark License and Royalty Agreement, dated February 3, 2014, by and between ChromaDex, Inc. and Elysium (the "License Agreement"), by failing to make payments to ChromaDex, Inc. for royalties due pursuant to the License Agreement and (iv) certain officers of Elysium made false promises and representations to induce ChromaDex, Inc. into providing large supplies of pTeroPure® and NIAGEN® to Elysium pursuant to the pTeroPure® Supply Agreement and NIAGEN® Supply Agreement. ChromaDex, Inc. is seeking punitive damages, money damages and interest.

On January 25, 2017, Elysium filed an answer and counterclaims (the "Counterclaim") in response to the Complaint. Among other allegations, Elysium alleges in the Counterclaim that (i) ChromaDex, Inc. breached the NIAGEN® Supply Agreement by not issuing certain refunds or credits to Elysium and for violating certain confidential information provisions, (ii) ChromaDex, Inc. breached the implied covenant of good faith and fair dealing pursuant to the NIAGEN® Supply Agreement, (iii) ChromaDex, Inc. breached certain confidential provisions of the pTeroPure® Supply Agreement, (iv) ChromaDex, Inc. fraudulently induced Elysium into entering into the License Agreement (the "Fraud Claim"), (v) ChromaDex, Inc.'s conduct constitutes misuse of its patent rights (the "Patent Claim") and (vi) ChromaDex, Inc. has engaged in unlawful or unfair competition under California state law (the "Unfair Competition Claim"). Elysium is seeking damages for ChromaDex, Inc.'s alleged breaches of the NIAGEN® Supply Agreement and pTeroPure® Supply Agreement, and compensatory damages, punitive damages and/or rescission of the License Agreement and restitution of any royalty payments conveyed by Elysium pursuant to the License Agreement.

On February 15, 2017, ChromaDex, Inc. filed an amended complaint. In the amended complaint, ChromaDex, Inc. re-alleges the claims in the Complaint, and also alleges that Elysium willfully and maliciously misappropriated ChromaDex, Inc.'s trade secrets. On February 15, 2017, ChromaDex, Inc. also filed a motion to dismiss the Fraud Claim, the Patent Claim and the Unfair Competition Claim. On March 1, 2017, Elysium filed a motion to dismiss ChromaDex, Inc.'s fraud and trade secret misappropriation causes of action. On March 6, 2017, Elysium filed a first amended counterclaim. On March 20, 2017, ChromaDex, Inc. moved to dismiss Elysium's amended fraud, patent misuse and the Unfair Competition Claim. On May 10, 2017, the court ruled on the motions to dismiss, denying ChromaDex, Inc.'s motion as to Elysium's fraud and patent misuse claims and granting ChromaDex, Inc.'s motion with prejudice as to Elysium's Unfair Competition Claim. With respect to Elysium's motion, the court granted the motion with prejudice as to ChromaDex, Inc.'s fraud claim and granted with leave to amend the motion as to ChromaDex, Inc.'s trade secret misappropriation claims. On May 24, 2017, ChromaDex, Inc. answered the first amended counterclaim and asserted several affirmative defenses. Also on May 24, 2017, ChromaDex, Inc. filed a second amended complaint, amending the trade secret misappropriation claims and addressing Elysium's patent misuse counterclaim. On June 7, 2017, ChromaDex, Inc. filed a third amended complaint dismissing the trade secret misappropriation claims and asserting two breach of contract claims for Elysium's failure to pay for the product delivered. On June 16, 2017, Elysium answered the third amended complaint. On July 17, 2017, Elysium filed petitions with the U.S. Patent and Trademark Office for inter partes review of U.S. Patent No. 8,197,807 and

8,383,086, patents to which ChromaDex, Inc. is the exclusive licensee. While ChromaDex, Inc. expresses no opinion as to the ultimate outcome of these matters, ChromaDex, Inc. believes Elysium's allegations are without merit and will vigorously defend against them.

As of July 1, 2017, ChromaDex, Inc. did not accrue a potential loss for the Counterclaim because ChromaDex, Inc. believes that the allegations are without merit and thus it is not probable that a liability had been incurred, and the amount of loss cannot be reasonably estimated.

From time to time we are involved in legal proceedings arising in the ordinary course of our business. We believe that there is no other litigation pending that is likely to have, individually or in the aggregate, a material adverse effect on our financial condition or results of operations.

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ITEM 1A. RISK FACTORS

Investing in our common stock involves a high degree of risk. Current investors and potential investors should consider carefully the risks and uncertainties described below and in our Annual Report, together with all other information contained in this Form 10-Q and our Annual Report, including our financial statements, the related notes and “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” before making investment decisions with respect to our common stock. If any of the following risks actually occur, our business, financial condition, results of operations and future growth prospects would likely be materially and adversely affected. Under these circumstances, the trading price and value of our common stock could decline, and you may lose all or part of your investment. The risks and uncertainties described in this Form 10-Q and in our Annual Report are not the only ones facing our Company. Additional risks and uncertainties of which we are not presently aware, or that we currently consider immaterial, may also impair our business operations. The risk factors set forth below that are marked with an asterisk (*) contain changes to the similarly titled risk factors included in Part I, Item 1A of our Annual Report.

Risks Related to our Company and our Business

*We have a history of operating losses, may need additional financing to meet our future long-term capital requirements and may be unable to raise sufficient capital on favorable terms or at all.

We have recorded a net loss of approximately $4,693,000 for the six months ended July 1, 2017, and we have a history of losses and may continue to incur operating and net losses for the foreseeable future. We incurred net losses of approximately $2,928,000, $2,771,000 and $5,388,000 for the years ended December 31, 2016, January 2, 2016 and January 3, 2015, respectively. As of July 1, 2017, our accumulated deficit was approximately $49.9 million. We have not achieved profitability on an annual basis. We may not be able to reach a level of revenue to continue to achieve and sustain profitability. If our revenues grow slower than anticipated, or if operating expenses exceed expectations, then we may not be able to achieve and sustain profitability in the near future or at all, which may depress our stock price.

On April 26, 2017, the Company entered into a Securities Purchase Agreement with certain purchasers named therein, pursuant to which the Company agreed to sell and issue up to $25.0 million of its Common Stock in three tranches. The first and second tranche closed on April 27, 2017 and May 24, 2017, respectively, and the Company received $3.5 million and $16.4 million, respectively. The third tranche is expected to close following a related stockholder approval at the Company's special meeting on August 10, 2017.

While we anticipate that our current cash, cash equivalents, cash to be generated from operations and the funds from the financing transaction described above will be sufficient to meet our projected operating plans through at least August 2018, the third tranche of the financing transaction is not certain to close and 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.

* Our capital requirements will depend on many factors.

Our capital requirements will depend on many factors, including:

the revenues generated by sales of our products;

the costs associated with expanding our sales and marketing efforts, including efforts to hire independent agents and sales representatives and obtain required regulatory approvals and clearances;

the expenses we incur in developing and commercializing our products, including the cost of obtaining and maintaining regulatory approvals; and

unanticipated general and administrative expenses.

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As a result of these factors, we may seek to raise additional capital prior to August 2018 both to meet our projected operating plans after August 2018 and to fund our longer term strategic objectives. Additional capital may come from public and private equity or debt offerings, borrowings under lines of credit or other sources. These additional funds may not be available on favorable terms, or at all. There can be no assurance we will be successful in raising these additional funds. 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, execute our business plan, 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.

* We are currently engaged in litigation with Elysium Health, LLC that may harm our business, and a disruption in sales to or the ability to collect from this customer or other significant customers in the future, could also materially harm our financial results.

We are currently engaged in litigation with Elysium Health, LLC, a customer that represented 19% of our net sales for the year ending December 31, 2016. For further details on this litigation, please refer to Part II, Item 1 of this Quarterly Report on Form 10-Q. This customer has not paid us approximately $2.7 million for previous purchase orders. We may not collect the full amount owed to us by this customer, and as a result, we may have to write off a large portion of that amount as uncollectible expense. We may also have to discount future sales, if any, to this customer.

The litigation may turn out to be substantial and complex, and it has and could continue to cause us to incur significant costs, as well as distract our management over an extended period of time. The litigation may substantially disrupt our business and we cannot assure you that we will be able to resolve the litigation on terms favorable to us. The customer has filed a counterclaim against us, and if we are unsuccessful in resolving the litigation on favorable terms to us, we may be forced to pay compensatory and punitive damages and restitution for any royalty payments that we received from the customer. Elysium has made no purchases from us since August 9, 2016. It is likely that the customer will not make any future purchases from us or, even if it does, those purchases may not be at previous volumes or prices. This may harm our future sales if we cannot replace their volume with other existing and new customers and which may materially affect our future financial results.

Going forward, we may have additional customers upon whom we become highly dependent. Factors that could influence our relationship with our significant customer and other customers upon whom we may become highly dependent include:

our ability to maintain our products at prices that are competitive with those of our competitors;

our ability to maintain quality levels for our products sufficient to meet the expectations of our customers;

our ability to produce, ship and deliver a sufficient quantity of our products in a timely manner to meet the needs of our customers;

our ability to continue to develop and launch new products that our customers feel meet their needs and requirements, with respect to cost, timeliness, features, performance and other factors;

our ability to provide timely, responsive and accurate customer support to our customers; and

the ability of our customers to effectively deliver, market and increase sales of their own products based on ours.

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Decline in the state of the global economy and financial market conditions could adversely affect our ability to conduct business and our results of operations.

Global economic and financial market conditions, including disruptions in the credit markets and the impact of the global economic deterioration may materially impact our customers and other parties with whom we do business. These conditions could negatively affect our future sales of our ingredient lines as many consumers consider the purchase of nutritional products discretionary. Decline in general economic and financial market conditions could materially adversely affect our financial condition and results of operations. Specifically, the impact of these volatile and negative conditions may include decreased demand for our products and services, a decrease in our ability to accurately forecast future product trends and demand, and a negative impact on our ability to timely collect receivables from our customers. The foregoing economic conditions may lead to increased levels of bankruptcies, restructurings and liquidations for our customers, scaling back of research and development expenditures, delays in planned projects and shifts in business strategies for many of our customers. Such events could, in turn, adversely affect our business through loss of sales.

We may need to increase the size of our organization, and we can provide no assurance that we will successfully expand operations or manage growth effectively.

Our significant increase in the scope and the scale of our product launches, including the hiring of additional personnel, has resulted in significantly higher operating expenses. As a result, we anticipate that our operating expenses will continue to increase. Expansion of our operations may also cause a significant demand on our management, finances and other resources. Our ability to manage the anticipated future growth, should it occur, will depend upon a significant expansion of our accounting and other internal management systems and the implementation and subsequent improvement of a variety of systems, procedures and controls. There can be no assurance that significant problems in these areas will not occur. Any failure to expand these areas and implement and improve such systems, procedures and controls in an efficient manner at a pace consistent with our business could have a material adverse effect on our business, financial condition and results of operations. There can be no assurance that our attempts to expand our marketing, sales, manufacturing and customer support efforts will be successful or will result in additional sales or profitability in any future period. As a result of the expansion of our operations and the anticipated increase in our operating expenses, as well as the difficulty in forecasting revenue levels, we expect to continue to experience significant fluctuations in our results of operations.

*Changes in our business strategy, including entering the consumer product market, or restructuring of our businesses may increase our costs or otherwise affect the profitability of our businesses.

As changes in our business environment occur we may adjust our business strategies to meet these changes or we may otherwise decide to restructure our operations or particular businesses or assets. In addition, external events including changing technology, changing consumer patterns and changes in macroeconomic conditions may impair the value of our assets. When these changes or events occur, we may incur costs to change our business strategy and may need to write down the value of assets. In any of these events, our costs may increase, we may have significant charges associated with the write-down of assets or returns on new investments may be lower than prior to the change in strategy or restructuring. For example, if we are not successful in developing our consumer product business, our sales may decrease and our costs may increase.

*The success of our ingredient and consumer product business is linked to the size and growth rate of the vitamin, mineral and dietary supplement market and an adverse change in the size or growth rate of that market could have a material adverse effect on us.

An adverse change in the size or growth rate of the vitamin, mineral and dietary supplement market could have a material adverse effect on our business. Underlying market conditions are subject to change based on economic conditions, consumer preferences and other factors that are beyond our control, including media attention and scientific research, which may be positive or negative.

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*Our future growth and profitability of our consumer product business will depend in large part upon the effectiveness and efficiency of our marketing expenditures and our ability to select effective markets and media in which to advertise.

Our business success depends on our ability to attract and retain customers, which significantly depends on our marketing practices. Our future growth and profitability will depend in large part upon the effectiveness and efficiency of our marketing expenditures, including our ability to:

create greater awareness of our brand;

identify the most effective and efficient levels of spending in each market, media and specific media vehicle;

determine the appropriate creative messages and media mix for advertising, marketing and promotional expenditures;

effectively manage marketing costs (including creative and media) in order to maintain acceptable customer acquisition costs;

acquire cost-effective television advertising;

select the most effective markets, media and specific media vehicles in which to advertise; and

convert consumer inquiries into actual orders.

Unfavorable publicity or consumer perception of our products and any similar products distributed by other companies could have a material adverse effect on our business.

We believe the nutritional supplement market is highly dependent upon consumer perception regarding the safety, efficacy and quality of nutritional supplements generally, as well as of products distributed specifically by us. Consumer perception of our products can be significantly influenced by scientific research or findings, regulatory investigations, litigation, national media attention and other publicity regarding the consumption of nutritional supplements. We cannot assure you that future scientific research, findings, regulatory proceedings, litigation, media attention or other favorable research findings or publicity will be favorable to the nutritional supplement market or any particular product, or consistent with earlier publicity. Future research reports, findings, regulatory proceedings, litigation, media attention or other publicity that are perceived as less favorable than, or that question, such earlier research reports, findings or publicity could have a material adverse effect on the demand for our products and consequently on our business, results of operations, financial condition and cash flows.

Our dependence upon consumer perceptions means that adverse scientific research reports, findings, regulatory proceedings, litigation, media attention or other publicity, whether or not accurate or with merit, could have a material adverse effect on the demand for our products, the availability and pricing of our ingredients, and our business, results of operations, financial condition and cash flows. Further, adverse public reports or other media attention regarding

the safety, efficacy and quality of nutritional supplements in general, or our products specifically, or associating the consumption of nutritional supplements with illness, could have such a material adverse effect. Any such adverse public reports or other media attention could arise even if the adverse effects associated with such products resulted from consumers' failure to consume such products appropriately or as directed and the content of such public reports and other media attention may be beyond our control.

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*We may incur material product liability claims, which could increase our costs and adversely affect our reputation, revenues and operating income.

As an ingredient supplier and consumer product supplier we market and manufacture products designed for human and animal consumption, we are subject to product liability claims if the use of our products is alleged to have resulted in injury. Our products consist of vitamins, minerals, herbs and other ingredients that are classified as foods, dietary supplements, or natural health products, and, in most cases, are not necessarily subject to pre-market regulatory approval in the United States. Some of our products contain innovative ingredients that do not have long histories of human consumption. Previously unknown adverse reactions resulting from human consumption of these ingredients could occur. In addition, the products we sell are produced by third-party manufacturers. As a marketer of products manufactured by third parties, we also may be liable for various product liability claims for products we do not manufacture. We may, in the future, be subject to various product liability claims, including, among others, that our products include inadequate instructions for use or inadequate warnings concerning possible side effects and interactions with other substances. A product liability claim against us could result in increased costs and could adversely affect our reputation with our customers, which, in turn, could have a materially adverse effect on our business, results of operations, financial condition and cash flows.

We acquire a significant amount of key ingredients for our products from foreign suppliers, and may be negatively affected by the risks associated with international trade and importation issues.

We acquire a significant amount of key ingredients for a number of our products from suppliers outside of the United States, particularly India and China. Accordingly, the acquisition of these ingredients is subject to the risks generally associated with importing raw materials, including, among other factors, delays in shipments, changes in economic and political conditions, quality assurance, nonconformity to specifications or laws and regulations, tariffs, trade disputes and foreign currency fluctuations. While we have a supplier certification program and audit and inspect our suppliers' facilities as necessary both in the United States and internationally, we cannot assure you that raw materials received from suppliers outside of the United States will conform to all specifications, laws and regulations. There have in the past been quality and safety issues in our industry with certain items imported from overseas. We may incur additional expenses and experience shipment delays due to preventative measures adopted by the Indian and U.S. governments, our suppliers and our company.

The insurance industry has become more selective in offering some types of coverage and we may not be able to obtain insurance coverage in the future.

The insurance industry has become more selective in offering some types of insurance, such as product liability, product recall, property and directors' and officers' liability insurance. Our current insurance program is consistent with both our past level of coverage and our risk management policies. However, we cannot assure you that we will be able to obtain comparable insurance coverage on favorable terms, or at all, in the future. Certain of our customers as well as prospective customers require that we maintain minimum levels of coverage for our products. Lack of coverage or coverage below these minimum required levels could cause these customers to materially change business terms or to cease doing business with us entirely.

*If we experience product recalls, we may incur significant and unexpected costs, and our business reputation could be adversely affected.

We may be exposed to product recalls and adverse public relations if our products are mislabeled or alleged to cause injury or illness, or if we are alleged to have violated governmental regulations. A product recall could result in substantial and unexpected expenditures, which would reduce operating profit and cash flow. In addition, a product

recall may require significant management attention. Product recalls may hurt the value of our brands and lead to decreased demand for our products. Product recalls also may lead to increased scrutiny by federal, state or international regulatory agencies of our operations and increased litigation and could have a material adverse effect on our business, results of operations, financial condition and cash flows.

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*Marketing our consumer products could put us in direct competition with our current ingredients segment customers and could potentially harm the sales of our ingredients segment business.

By developing and selling our own consumer standalone NIAGEN® supplement product, we may be in direct competition with some of our current ingredients segment customers that use NIAGEN® in the products that are sold to consumers. As our own consumer product becomes more prominent and widely adopted by consumers, this competition could potential harm the sales of our ingredients segment business, and our sales of NIAGEN® for our ingredients segment may decrease. Sales for our ingredients segment represented approximately 63% of the Company's revenue for 2016, and sales of NIAGEN® accounted for approximately 71% of our ingredient segment's total sales in 2016, or 45% of our overall revenue, so any harm to our NIAGEN® ingredient sales may materially and negatively affect our business.

We depend on key personnel, the loss of any of which could negatively affect our business.

We depend greatly on Frank L. Jaksch Jr., Thomas C. Varvaro, Troy A. Rhonemus and Robert N. Fried who are our Chief Executive Officer, Chief Financial Officer, Chief Operating Officer, and President and Chief Strategy Officer, respectively. We also depend greatly on other key employees, including key scientific and marketing personnel. In general, only highly qualified and trained scientists have the necessary skills to develop our products and provide our services. Only marketing personnel with specific experience and knowledge in health care are able to effectively market our products. In addition, some of our manufacturing, quality control, safety and compliance, information technology, sales and e-commerce related positions are highly technical as well. We face intense competition for these professionals from our competitors, customers, marketing partners and other companies throughout the industries in which we compete. Our success will depend, in part, upon our ability to attract and retain additional skilled personnel, which will require substantial additional funds. There can be no assurance that we will be able to find and attract additional qualified employees or retain any such personnel. Our inability to hire qualified personnel, the loss of services of our key personnel, or the loss of services of executive officers or key employees that may be hired in the future may have a material and adverse effect on our business.

Our operating results may fluctuate significantly as a result of a variety of factors, many of which are outside of our control.

We are subject to the following factors, among others, that may negatively affect our operating results:

the announcement or introduction of new products by our competitors;

our ability to upgrade and develop our systems and infrastructure to accommodate growth;

the decision by significant customers to reduce purchases;

disputes and litigation with significant customers;

our ability to attract and retain key personnel in a timely and cost-effective manner;

technical difficulties;

the amount and timing of operating costs and capital expenditures relating to the expansion of our business, operations and infrastructure;

regulation by federal, state or local governments; and

general economic conditions as well as economic conditions specific to the healthcare industry.

As a result of our limited operating history and the nature of the markets in which we compete, it is extremely difficult for us to make accurate forecasts. We have based our current and future expense levels largely on our investment plans and estimates of future events although certain of our expense levels are, to a large extent, fixed. Assuming our products reach the market, we may be unable to adjust spending in a timely manner to compensate for any unexpected revenue shortfall. Accordingly, any significant shortfall in revenues relative to our planned expenditures would have an immediate adverse effect on our business, results of operations and financial condition. Further, as a strategic response to changes in the competitive environment, we may from time to time make certain pricing, service or marketing decisions that could have a material and adverse effect on our business, results of operations and financial condition. Due to the foregoing factors, our revenues and operating results are and will remain difficult to forecast.

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We face significant competition, including changes in pricing.

The markets for our products and services are both competitive and price sensitive. Many of our competitors have significant financial, operations, sales and marketing resources and experience in research and development. Competitors could develop new technologies that compete with our products and services or even render our products obsolete. If a competitor develops superior technology or cost-effective alternatives to our products and services, our business could be seriously harmed.

The markets for some of our products are also subject to specific competitive risks because these markets are highly price competitive. Our competitors have competed in the past by lowering prices on certain products. If they do so again, we may be forced to respond by lowering our prices. This would reduce sales revenues and increase losses. Failure to anticipate and respond to price competition may also impact sales and aggravate losses.

We believe that customers in our markets display a significant amount of loyalty to their supplier of a particular product. To the extent we are not the first to develop, offer and/or supply new products, customers may buy from our competitors or make materials themselves, causing our competitive position to suffer.

Many of our competitors are larger and have greater financial and other resources than we do.

Our products compete and will compete with other similar products produced by our competitors. These competitive products could be marketed by well-established, successful companies that possess greater financial, marketing, distributional, personnel and other resources than we possess. Using these resources, these companies can implement extensive advertising and promotional campaigns, both generally and in response to specific marketing efforts by competitors, and enter into new markets more rapidly to introduce new products. In certain instances, competitors with greater financial resources also may be able to enter a market in direct competition with us, offering attractive marketing tools to encourage the sale of products that compete with our products or present cost features that consumers may find attractive.

We may never develop any additional products to commercialize.

We have invested a substantial amount of our time and resources in developing various new products. Commercialization of these products will require additional development, clinical evaluation, regulatory approval, significant marketing efforts and substantial additional investment before they can provide us with any revenue. Despite our efforts, these products may not become commercially successful products for a number of reasons, including but not limited to:

we may not be able to obtain regulatory approvals for our products, or the approved indication may be narrower than we seek;

our products may not prove to be safe and effective in clinical trials;

we may experience delays in our development program;

any products that are approved may not be accepted in the marketplace;

we may not have adequate financial or other resources to complete the development or to commence the commercialization of our products or will not have adequate financial or other resources to achieve significant commercialization of our products;

we may not be able to manufacture any of our products in commercial quantities or at an acceptable cost;

rapid technological change may make our products obsolete;

we may be unable to effectively protect our intellectual property rights or we may become subject to claims that our activities have infringed the intellectual property rights of others; and

we may be unable to obtain or defend patent rights for our products.

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We may not be able to partner with others for technological capabilities and new products and services.

Our ability to remain competitive may depend, in part, on our ability to continue to seek partners that can offer technological improvements and improve existing products and services that are offered to our customers. We are committed to attempting to keep pace with technological change, to stay abreast of technology changes and to look for partners that will develop new products and services for our customer base. We cannot assure prospective investors that we will be successful in finding partners or be able to continue to incorporate new developments in technology, to improve existing products and services, or to develop successful new products and services, nor can we be certain that newly developed products and services will perform satisfactorily or be widely accepted in the marketplace or that the costs involved in these efforts will not be substantial.

If we fail to maintain adequate quality standards for our products and services, our business may be adversely affected and our reputation harmed.

Dietary supplement, nutraceutical, food and beverage, functional food, analytical laboratories, pharmaceutical and cosmetic customers are often subject to rigorous quality standards to obtain and maintain regulatory approval of their products and the manufacturing processes that generate them. A failure to maintain, or, in some instances, upgrade our quality standards to meet our customers' needs, could cause damage to our reputation and potentially substantial sales losses.

Our ability to protect our intellectual property and proprietary technology through patents and other means is uncertain and may be inadequate, which would have a material and adverse effect on us.

Our success depends significantly on our ability to protect our proprietary rights to the technologies used in our products. We rely on patent protection, as well as a combination of copyright, trade secret and trademark laws and nondisclosure, confidentiality and other contractual restrictions to protect our proprietary technology, including our licensed technology. However, these legal means afford only limited protection and may not adequately protect our rights or permit us to gain or keep any competitive advantage. For example, our pending United States and foreign patent applications may not issue as patents in a form that will be advantageous to us or may issue and be subsequently successfully challenged by others and invalidated. In addition, our pending patent applications include claims to material aspects of our products and procedures that are not currently protected by issued patents. Both the patent application process and the process of managing patent disputes can be time consuming and expensive. Competitors may be able to design around our patents or develop products which provide outcomes which are comparable or even superior to ours. Steps that we have taken to protect our intellectual property and proprietary technology, including entering into confidentiality agreements and intellectual property assignment agreements with some of our officers, employees, consultants and advisors, may not provide us with meaningful protection for our trade secrets or other proprietary information in the event of unauthorized use or disclosure or other breaches of the agreements. Furthermore, the laws of foreign countries may not protect our intellectual property rights to the same extent as do the laws of the United States.

In the event a competitor infringes upon our licensed or pending patent or other intellectual property rights, enforcing those rights may be costly, uncertain, difficult and time consuming. Even if successful, litigation to enforce our intellectual property rights or to defend our patents against challenge could be expensive and time consuming and could divert our management's attention. We may not have sufficient resources to enforce our intellectual property rights or to defend our patents rights against a challenge. The failure to obtain patents and/or protect our intellectual property rights could have a material and adverse effect on our business, results of operations and financial condition.

Our patents and licenses may be subject to challenge on validity grounds, and our patent applications may be rejected.

We rely on our patents, patent applications, licenses and other intellectual property rights to give us a competitive advantage. Whether a patent is valid, or whether a patent application should be granted, is a complex matter of science and law, and therefore we cannot be certain that, if challenged, our patents, patent applications and/or other intellectual property rights would be upheld. If one or more of those patents, patent applications, licenses and other intellectual property rights are invalidated, rejected or found unenforceable, that could reduce or eliminate any competitive advantage we might otherwise have had.

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We may become subject to claims of infringement or misappropriation of the intellectual property rights of others, which could prohibit us from developing our products, require us to obtain licenses from third parties or to develop non-infringing alternatives and subject us to substantial monetary damages.

Third parties could, in the future, assert infringement or misappropriation claims against us with respect to products we develop. Whether a product infringes a patent or misappropriates other intellectual property involves complex legal and factual issues, the determination of which is often uncertain. Therefore, we cannot be certain that we have not infringed the intellectual property rights of others. Our potential competitors may assert that some aspect of our product infringes their patents. Because patent applications may take years to issue, there also may be applications now pending of which we are unaware that may later result in issued patents upon which our products could infringe. There also may be existing patents or pending patent applications of which we are unaware upon which our products may inadvertently infringe.

Any infringement or misappropriation claim could cause us to incur significant costs, place significant strain on our financial resources, divert management's attention from our business and harm our reputation. If the relevant patents in such claim were upheld as valid and enforceable and we were found to infringe them, we could be prohibited from selling any product that is found to infringe unless we could obtain licenses to use the technology covered by the patent or are able to design around the patent. We may be unable to obtain such a license on terms acceptable to us, if at all, and we may not be able to redesign our products to avoid infringement. A court could also order us to pay compensatory damages for such infringement, plus prejudgment interest and could, in addition, treble the compensatory damages and award attorney fees. These damages could be substantial and could harm our reputation, business, financial condition and operating results. A court also could enter orders that temporarily, preliminarily or permanently enjoin us and our customers from making, using, or selling products, and could enter an order mandating that we undertake certain remedial activities. Depending on the nature of the relief ordered by the court, we could become liable for additional damages to third parties.

The prosecution and enforcement of patents licensed to us by third parties are not within our control. Without these technologies, our products may not be successful and our business would be harmed if the patents were infringed on or misappropriated without action by such third parties.

We have obtained licenses from third parties for patents and patent application rights related to the products we are developing, allowing us to use intellectual property rights owned by or licensed to these third parties. We do not control the maintenance, prosecution, enforcement or strategy for many of these patents or patent application rights and as such are dependent in part on the owners of the intellectual property rights to maintain their viability. Without access to these technologies or suitable design-around or alternative technology options, our ability to conduct our business could be impaired significantly.

We may be subject to damages resulting from claims that we, our employees, or our independent contractors have wrongfully used or disclosed alleged trade secrets of others.

Some of our employees were previously employed at other dietary supplement, nutraceutical, food and beverage, functional food, analytical laboratories, pharmaceutical and cosmetic companies. We may also hire additional employees who are currently employed at other such companies, including our competitors. Additionally, consultants or other independent agents with which we may contract may be or have been in a contractual arrangement with one or more of our competitors. We may be subject to claims that these employees or independent contractors have used or disclosed such other party's trade secrets or other proprietary information. Litigation may be necessary to defend against these claims. Even if we are successful in defending against these claims, litigation could result in substantial

costs and be a distraction to our management. If we fail to defend such claims, in addition to paying monetary damages, we may lose valuable intellectual property rights or personnel. A loss of key personnel or their work product could hamper or prevent our ability to market existing or new products, which could severely harm our business.

Litigation may harm our business.

Substantial, complex or extended litigation could cause us to incur significant costs and distract our management. For example, lawsuits by employees, stockholders, collaborators, distributors, customers, competitors or others could be very costly and substantially disrupt our business. Disputes from time to time with such companies, organizations or individuals are not uncommon, and we cannot assure you that we will always be able to resolve such disputes or on terms favorable to us. Unexpected results could cause us to have financial exposure in these matters in excess of recorded reserves and insurance coverage, requiring us to provide additional reserves to address these liabilities, therefore impacting profits.

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Our sales and results of operations depend on our customers' research and development efforts and their ability to obtain funding for these efforts.

Our customers include researchers at pharmaceutical and biotechnology companies, chemical and related companies, academic institutions, government laboratories and private foundations. Fluctuations in the research and development budgets of these researchers and their organizations could have a significant effect on the demand for our products. Our customers determine their research and development budgets based on several factors, including the need to develop new products, the availability of governmental and other funding, competition and the general availability of resources. As we continue to expand our international operations, we expect research and development spending levels in markets outside of the United States will become increasingly important to us.

Research and development budgets fluctuate due to changes in available resources, spending priorities, general economic conditions, institutional and governmental budgetary limitations and mergers of pharmaceutical and biotechnology companies. Our business could be harmed by any significant decrease in life science and high technology research and development expenditures by our customers. In particular, a small portion of our sales has been to researchers whose funding is dependent on grants from government agencies such as the United States National Institute of Health, the National Science Foundation, the National Cancer Institute and similar agencies or organizations. Government funding of research and development is subject to the political process, which is often unpredictable. Other departments, such as Homeland Security or Defense, or general efforts to reduce the United States federal budget deficit could be viewed by the government as a higher priority. Any shift away from funding of life science and high technology research and development or delays surrounding the approval of governmental budget proposals may cause our customers to delay or forego purchases of our products and services, which could seriously damage our business.

Some of our customers receive funds from approved grants at a particular time of year, many times set by government budget cycles. In the past, such grants have been frozen for extended periods or have otherwise become unavailable to various institutions without advance notice. The timing of the receipt of grant funds may affect the timing of purchase decisions by our customers and, as a result, cause fluctuations in our sales and operating results.

Demand for our products and services are subject to the commercial success of our customers' products, which may vary for reasons outside our control.

Even if we are successful in securing utilization of our products in a customer's manufacturing process, sales of many of our products and services remain dependent on the timing and volume of the customer's production, over which we have no control. The demand for our products depends on regulatory approvals and frequently depends on the commercial success of the customer's supported product. Regulatory processes are complex, lengthy, expensive, and can often take years to complete.

We may bear financial risk if we under-price our contracts or overrun cost estimates.

In cases where our contracts are structured as fixed price or fee-for-service with a cap, we bear the financial risk if we initially under-price our contracts or otherwise overrun our cost estimates. Such under-pricing or significant cost overruns could have a material adverse effect on our business, results of operations, financial condition and cash flows.

We rely on single or a limited number of third-party suppliers for the raw materials required for the production of our products.

Our dependence on a limited number of third-party suppliers or on a single supplier, and the challenges we may face in obtaining adequate supplies of raw materials, involve several risks, including limited control over pricing, availability, quality and delivery schedules. We cannot be certain that our current suppliers will continue to provide us with the quantities of these raw materials that we require or satisfy our anticipated specifications and quality requirements. Any supply interruption in limited or sole sourced raw materials could materially harm our ability to manufacture our products until a new source of supply, if any, could be identified and qualified. Although we believe there are other suppliers of these raw materials, we may be unable to find a sufficient alternative supply channel in a reasonable time or on commercially reasonable terms. Any performance failure on the part of our suppliers could delay the development and commercialization of our products, or interrupt production of then existing products that are already marketed, which would have a material adverse effect on our business.

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We may not be successful in acquiring complementary businesses on favorable terms.

As part of our business strategy, we intend to consider acquisitions of similar or complementary businesses. No assurance can be given that we will be successful in identifying attractive acquisition candidates or completing acquisitions on favorable terms. In addition, any future acquisitions will be accompanied by the risks commonly associated with acquisitions. These risks include potential exposure to unknown liabilities of acquired companies or to acquisition costs and expenses, the difficulty and expense of integrating the operations and personnel of the acquired companies, the potential disruption to the business of the combined company and potential diversion of our management's time and attention, the impairment of relationships with and the possible loss of key employees and clients as a result of the changes in management, the incurrence of amortization expenses and dilution to the shareholders of the combined company if the acquisition is made for stock of the combined company. In addition, successful completion of an acquisition may depend on consents from third parties, including regulatory authorities and private parties, which consents are beyond our control. There can be no assurance that products, technologies or businesses of acquired companies will be effectively assimilated into the business or product offerings of the combined company or will have a positive effect on the combined company's revenues or earnings. Further, the combined company may incur significant expense to complete acquisitions and to support the acquired products and businesses. Any such acquisitions may be funded with cash, debt or equity, which could have the effect of diluting or otherwise adversely affecting the holdings or the rights of our existing stockholders.

If we experience a significant disruption in our information technology systems or if we fail to implement new systems and software successfully, our business could be adversely affected.

We depend on information systems throughout our company to control our manufacturing processes, process orders, manage inventory, process and bill shipments and collect cash from our customers, respond to customer inquiries, contribute to our overall internal control processes, maintain records of our property, plant and equipment, and record and pay amounts due vendors and other creditors. If we were to experience a prolonged disruption in our information systems that involve interactions with customers and suppliers, it could result in the loss of sales and customers and/or increased costs, which could adversely affect our overall business operation.

*Our cash flows and capital resources may be insufficient to make required payments on future indebtedness.

On November 4, 2016, we entered into entered into a business financing agreement (the “Financing Agreement”) with Western Alliance Bank (“Western Alliance”), in order to establish a formula based revolving credit line pursuant to which the Company may borrow an aggregate principal amount of up to $5,000,000, subject to the terms and conditions of the Financing Agreement. The interest rate will be calculated at a floating rate per month equal to (a) the greater of (i) 3.50% per year or (ii) the Prime Rate published in the Money Rates section of the Western Edition of The Wall Street Journal, or such other rate of interest publicly announced by Lender as its Prime Rate, plus (b) 2.50 percentage points. Any borrowings, interest or other fees or obligations that the Company owes Western Alliance pursuant to the Financing Agreement (the “Obligations”) will be become due and payable on November 4, 2018.

As of July 1, 2017 and August 9, 2017, we did not have any indebtedness under the Financing Agreement. However, we may incur indebtedness in the future and such indebtedness could have important consequences to you. For example, it could:

make it difficult for us to satisfy our other debt obligations;

make us more vulnerable to general adverse economic and industry conditions;

limit our ability to obtain additional financing for working capital, capital expenditures, acquisitions and other general corporate requirements;

expose us to interest rate fluctuations because the interest rate on the debt under the Financing Agreement is variable;

require us to dedicate a portion of our cash flow from operations to payments on our debt, thereby reducing the availability of our cash flow for operations and other purposes;

limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate; and

place us at a competitive disadvantage compared to competitors that may have proportionately less debt and greater financial resources.

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In addition, our ability to make payments or refinance our obligations depends on our successful financial and operating performance, cash flows and capital resources, which in turn depend upon prevailing economic conditions and certain financial, business and other factors, many of which are beyond our control. These factors include, among others:

economic and demand factors affecting our industry;

pricing pressures;

increased operating costs;

competitive conditions; and

other operating difficulties.

If our cash flows and capital resources are insufficient to fund our debt service obligations, we may be forced to reduce or delay capital expenditures, sell material assets or operations, obtain additional capital or restructure our debt. In the event that we are required to dispose of material assets or operations to meet our debt service and other obligations, the value realized on such assets or operations will depend on market conditions and the availability of buyers. Accordingly, any such sale may not, among other things, be for a sufficient dollar amount. Our obligations pursuant to the Financing Agreement are secured by a security interest in all of our assets, exclusive of intellectual property. The foregoing encumbrances may limit our ability to dispose of material assets or operations. We also may not be able to restructure our indebtedness on favorable economic terms, if at all.

We may incur additional indebtedness in the future. Our incurrence of additional indebtedness would intensify the risks described above.

The Financing Agreement contains various covenants limiting the discretion of our management in operating our business.

The Financing Agreement contains various restrictive covenants that limit our management's discretion in operating our business. In particular, these instruments limit our ability to, among other things:

incur additional debt;

grant liens on assets;

make investments, including capital expenditures;

sell or acquire assets outside the ordinary course of business; and

make fundamental business changes.

If we fail to comply with the restrictions in the Financing Agreement, a default may allow the creditors under the relevant instruments to accelerate the related debt and to exercise their remedies under these agreements, which will typically include the right to declare the principal amount of that debt, together with accrued and unpaid interest and other related amounts, immediately due and payable, to exercise any remedies the creditors may have to foreclose on assets that are subject to liens securing that debt and to terminate any commitments they had made to supply further funds.

If we are unable to maintain sales, marketing and distribution capabilities or maintain arrangements with third parties to sell, market and distribute our products, our business may be harmed.

To achieve commercial success for our products, we must sell our product lines and/or technologies at favorable prices. In addition to being expensive, maintaining such a sales force is time-consuming. Qualified direct sales personnel with experience in the natural products industry are in high demand, and there can be no assurance that we will be able to hire or retain an effective direct sales team. Similarly, qualified independent sales representatives both within and outside the United States are in high demand, and we may not be able to build an effective network for the distribution of our product through such representatives. There can be no assurance that we will be able to enter into contracts with representatives on terms acceptable to us. Furthermore, there can be no assurance that we will be able to build an alternate distribution framework should we attempt to do so.

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We may also need to contract with third parties in order to market our products. To the extent that we enter into arrangements with third parties to perform marketing and distribution services, our product revenue could be lower and our costs higher than if we directly marketed our products. Furthermore, to the extent that we enter into co-promotion or other marketing and sales arrangements with other companies, any revenue received will depend on the skills and efforts of others, and we do not know whether these efforts will be successful. If we are unable to establish and maintain adequate sales, marketing and distribution capabilities, independently or with others, we will not be able to generate product revenue, and may not become profitable.

Risks Related to Regulatory Approval of Our Products and Other Government Regulations

We are subject to regulation by various federal, state and foreign agencies that require us to comply with a wide variety of regulations, including those regarding the manufacture of products, advertising and product label claims, the distribution of our products and environmental matters. Failure to comply with these regulations could subject us to fines, penalties and additional costs.

Some of our operations are subject to regulation by various United States federal agencies and similar state and international agencies, including the Department of Commerce, the FDA, the FTC, the Department of Transportation and the Department of Agriculture. These regulations govern a wide variety of product activities, from design and development to labeling, manufacturing, handling, sales and distribution of products. If we fail to comply with any of these regulations, we may be subject to fines or penalties, have to recall products and/or cease their manufacture and distribution, which would increase our costs and reduce our sales.

We are also subject to various federal, state, local and international laws and regulations that govern the handling, transportation, manufacture, use and sale of substances that are or could be classified as toxic or hazardous substances. Some risk of environmental damage is inherent in our operations and the products we manufacture, sell, or distribute. Any failure by us to comply with the applicable government regulations could also result in product recalls or impositions of fines and restrictions on our ability to carry on with or expand in a portion or possibly all of our operations. If we fail to comply with any or all of these regulations, we may be subject to fines or penalties, have to recall products and/or cease their manufacture and distribution, which would increase our costs and reduce our sales.

Government regulations of our customer’s business are extensive and are constantly changing. Changes in these regulations can significantly affect customer demand for our products and services.

The process by which our customers’ industries are regulated is controlled by government agencies and depending on the market segment can be very expensive, time consuming, and uncertain. Changes in regulations or the enforcement practices of current regulations could have a negative impact on our customers and, in turn, our business. At this time, it is unknown how the FDA will interpret and to what extent it will enforce GMPs, regulations that will likely affect many of our customers. These uncertainties may have a material impact on our results of operations, 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 our products and services.

*Changes in government regulation or in practices relating to the pharmaceutical, dietary supplement, food and cosmetic industry could decrease the need for the services we provide.

Governmental agencies throughout the world, including in the United States, strictly regulate the pharmaceutical, dietary supplement, food and cosmetic industries. Our business involves helping pharmaceutical and biotechnology companies navigate the regulatory drug approval process. Changes in regulation, such as a relaxation in regulatory

requirements or the introduction of simplified drug approval procedures, or an increase in regulatory requirements that we have difficulty satisfying or that make our services less competitive, could eliminate or substantially reduce the demand for our services. Also, if the government makes efforts to contain drug costs and pharmaceutical and biotechnology company profits from new drugs, our customers may spend less, or reduce their spending on research and development. If health insurers were to change their practices with respect to reimbursements for pharmaceutical products, our customers may spend less, or reduce their spending on research and development.

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If we should in the future become required to obtain regulatory approval to market and sell our goods we will not be able to generate any revenues until such approval is received.

The pharmaceutical industry is subject to stringent regulation by a wide range of authorities. While we believe that, given our present business, we are not currently required to obtain regulatory approval to market our goods because, among other things, we do not (i) produce or market any clinical devices or other products, or (ii) sell any medical products or services to the customer, we cannot predict whether regulatory clearance will be required in the future and, if so, whether such clearance will at such time be obtained for any products that we are developing or may attempt to develop. Should such regulatory approval in the future be required, our goods may be suspended or may not be able to be marketed and sold in the United States until we have completed the regulatory clearance process as and if implemented by the FDA. Satisfaction of regulatory requirements typically takes many years, is dependent upon the type, complexity and novelty of the product or service and would require the expenditure of substantial resources.

If regulatory clearance of a good that we propose to propose to market and sell is granted, this clearance may be limited to those particular states and conditions for which the good is demonstrated to be safe and effective, which would limit our ability to generate revenue. We cannot ensure that any good that we develop will meet all of the applicable regulatory requirements needed to receive marketing clearance. Failure to obtain regulatory approval will prevent commercialization of our goods where such clearance is necessary. There can be no assurance that we will obtain regulatory approval of our proposed goods that may require it.

Risks Related to the Securities Markets and Ownership of our Equity Securities

The market price of our common stock may be volatile and adversely affected by several factors.

The market price of our common stock could fluctuate significantly in response to various factors and events, including, but not limited to:

our ability to integrate operations, technology, products and services;

our ability to execute our business plan;

our operating results are below expectations;

our issuance of additional securities, including debt or equity or a combination thereof,;

announcements of technological innovations or new products by us or our competitors;

media coverage regarding our industry or us;

litigation;

disputes with or our inability to collect from significant customers;

loss of any strategic relationship;

industry developments, including, without limitation, changes in healthcare policies or practices;

economic and other external factors;

reductions in purchases from our large customers;

period-to-period fluctuations in our financial results; and

whether an active trading market in our common stock develops and is maintained.

In addition, the securities markets have from time to time experienced significant price and volume fluctuations that are unrelated to the operating performance of particular companies. These market fluctuations may also materially and adversely affect the market price of our common stock.

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Our shares of common stock may be thinly traded, so you may be unable to sell at or near ask prices or at all.

We cannot predict the extent to which an active public market for our common stock will develop or be sustained. This situation may be attributable to a number of factors, including the fact that we are a small company that is relatively unknown to stock analysts, stock brokers, institutional investors and others in the investment community who generate or influence sales volume, and that even if we came to the attention of such persons, they tend to be risk averse and would be reluctant to follow an unproven company such as ours or purchase or recommend the purchase of our shares until such time as we have become more seasoned and viable. As a consequence, there may be periods of several days or weeks when trading activity in our shares is minimal or non-existent, as compared to a seasoned issuer which has a large and steady volume of trading activity that will generally support continuous sales without an adverse effect on share price. We cannot assure you that a broader or more active public trading market for our common stock will develop or be sustained, or that current trading levels will be sustained or not diminish.

We have not paid cash dividends in the past and do not expect to pay cash dividends in the foreseeable future. Any return on investment may be limited to the value of our common stock.

We have never paid cash dividends on our capital stock and do not anticipate paying cash dividends on our capital stock in the foreseeable future. The payment of dividends on our capital stock will depend on our earnings, financial condition and other business and economic factors affecting us at such time as the board of directors may consider relevant. If we do not pay dividends, our common stock may be less valuable because a return on your investment will only occur if the common stock price appreciates.

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

If future operations or acquisitions are financed through the issuance of additional equity securities, stockholders could experience significant dilution. Securities issued in connection with future financing activities or potential acquisitions may have rights and preferences senior to the rights and preferences of our common stock. In addition, the issuance of shares of our common stock upon the exercise of outstanding options or warrants may result in dilution to our stockholders.

*We may become involved in securities class action litigation that could divert management’s attention and harm our business.

The stock market in general, and the stocks of early stage companies in particular, have experienced extreme price and volume fluctuations. These fluctuations have often been unrelated or disproportionate to the operating performance of the companies involved. If these fluctuations occur in the future, the market price of our shares could fall regardless of our operating performance. In the past, following periods of volatility in the market price of a particular company’s securities, securities class action litigation has often been brought against that company. If the market price or volume of our shares suffers extreme fluctuations, then we may become involved in this type of litigation, which would be expensive and divert management’s attention and resources from managing our business.

As a public company, we may also from time to time make forward-looking statements about future operating results and provide some financial guidance to the public markets. Projections may not be made timely or set at expected performance levels and could materially affect the price of our shares. Any failure to meet published forward-looking statements that adversely affect the stock price could result in losses to investors, stockholder lawsuits or other litigation, sanctions or restrictions issued by the SEC.

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

As of July 1, 2017, we had outstanding options exercisable for an aggregate of 5,965,172 shares of common stock at a weighted average exercise price of $3.41 per share and outstanding warrants exercisable for an aggregate of 470,444 shares of common stock at a weighted average exercise price of $4.15 per share. The holders may sell many of these shares in the public markets from time to time, without limitations on the timing, amount or method of sale. As and when our stock price rises, if at all, more outstanding options and warrants will be in-the-money and the holders may exercise their options and warrants and sell a large number of shares. This could cause the market price of our common stock to decline.

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

On April 26, 2017, the Company entered into a Securities Purchase Agreement with certain purchasers named therein (the “Purchasers”), pursuant to which the Company agreed to sell and issue up to $25.0 million of its common stock at a purchase price of $2.60 per share in three tranches of approximately $3.5 million, $16.4 million and $5.1 million, respectively. The first tranche closed on April 27, 2017, pursuant to which the Company issued 1,346,154 shares of its common stock. The second tranche closed on May 24, 2017, pursuant to which the Company issued 6,303,814 shares of its common stock. The third tranche is expected to close following a related stockholder approval at the Company's special meeting on August 10, 2017.

The shares of the Company’s common stock sold pursuant to the Securities Purchase Agreement were not registered under the Securities Act, or any state securities laws. The Company had relied on the exemption from the registration requirements of the Securities Act by virtue of Section 4(a)(2) thereof and Rule 506 of Regulation D thereunder. In connection with the Purchasers’ execution of the Securities Purchase Agreement, the Purchasers’ represented to the Company that they are each an “accredited investor” as defined in Regulation D of the Securities Act and that the securities purchased by them were acquired solely for their own account and for investment purposes and not with a view to the future sale or distribution.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

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ITEM 6. EXHIBITS

Exhibit No.	Description of Exhibits
2.1	Agreement and Plan of Merger, dated as of May 21, 2008, by and among Cody Resources, Inc., CDI Acquisition, Inc. and ChromaDex, Inc., as amended on June 10, 2008 (incorporated by reference to, and filed as Exhibit 2.1 to the Registrant's Current Report on Form 8-K filed with the Commission on June 24, 2008)
3.1	Amended and Restated Certificate of Incorporation of the Registrant (incorporated by reference to, and filed as Exhibit 3.1 to the Registrant's Annual Report on Form 10-K filed with the Commission on March 16, 2017)
3.2	Bylaws of the Registrant (incorporated by reference to, and filed as Exhibit 3.2 to the Registrant's Current Report on Form 8-K filed with the Commission on June 24, 2008)
3.3	Certificate of Amendment to the Amended and Restated Certificate of Incorporation of the Registrant (incorporated by reference to, and filed as Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed with the Commission on April 12, 2016)
3.4	Amendment to Bylaws of the Registrant (incorporated by reference to, and filed as Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed with the Commission on July 19, 2016)
4.1	Form of Stock Certificate representing shares of the Registrant's Common Stock (incorporated by reference to, and filed as Exhibit 4.1 to the Registrant's Annual Report on Form 10-K filed with the Commission on April 3, 2009)
4.2	Investor's Rights Agreement, effective as of December 31, 2005, by and between The University of Mississippi Research Foundation and the Registrant (incorporated by reference to, and filed as Exhibit 4.1 to the Registrant's Current Report on Form 8-K filed with the Commission on June 24, 2008)
4.3	Tag-Along Agreement effective as of December 31, 2005, by and among the Registrant, Frank Louis Jaksch, Snr. & Maria Jaksch, Trustees of the Jaksch Family Trust, Margery Germain, Lauren Germain, Emily Germain, Lucie Germain, Frank Louis Jaksch, Jr., and the University of Mississippi Research Foundation (incorporated by reference to, and filed as Exhibit 4.2 to the Registrant's Current Report on Form 8-K filed with the Commission on June 24, 2008)
4.4	Form of Stock Certificate representing shares of the Registrant's Common Stock effective as of January 1, 2016 (incorporated by reference to, and filed as Exhibit 4.4 to the Registrant's Annual Report on Form 10-K filed with the Commission on March 17, 2016)
10.1	Third Business Financing Modification Agreement, dated as of April 19, 2017, between Western Alliance Bank and ChromaDex Corporation
10.2	Securities Purchase Agreement dated April 26, 2017, by and among the Company and the purchasers named therein (incorporated by reference to, and filed as Exhibit 99.1 to the Registrant's Current Report on Form 8-K filed with the Commission on April 27, 2017)
10.3	Registration Rights Agreement dated April 29, 2017, by and among the Company and the purchasers named therein (incorporated by reference to, and filed as Exhibit 99.1 to the Registrant's Current Report on Form 8-K filed with the Commission on May 2, 2017)
10.4	First Amendment to Securities Purchase Agreement dated May 24, 2017, by and among the Company and the purchasers named therein (incorporated by reference to, and filed as Exhibit 99.1 to the Registrant's Current Report on Form 8-K filed with the Commission on May 25, 2017)
10.5	License Agreement dated June 9, 2017, by and between ChromaPharma, Inc. and the Scripps Research Institute (1)
10.6	Research Funding Agreement dated June 9, 2017, by and between ChromaPharma, Inc. and the Scripps Research Institute (1)

10.7	Fourth Business Financing Modification Agreement, dated as of July 13, 2017, between Western Alliance Bank and ChromaDex Corporation
10.8	Amended and Restated Non-Employee Director Compensation Policy +
31.1	Certification of the Chief Executive Officer pursuant to Rule 13a-14(A) of the Securities Exchange Act of 1934, as amended
31.2	Certification of the Chief Financial Officer pursuant to Rule 13a-14(A) 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)
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

Filed herewith.
+ Indicates management contract or compensatory plan or arrangement.

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

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CHROMADEX CORPORATION

Date: August 10, 2017 By: /s/ THOMAS C. VARVARO
Thomas C. Varvaro
Chief Financial Officer
(principal financial and accounting officer and duly authorized on behalf of the registrant)